

# LONDON BOROUGH OF TOWER HAMLETS

## STATEMENT OF ACCOUNTS 2010-11

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## **EXPLANATORY FOREWORD**

### **Overview by the Corporate Director of Resources**

I am pleased to introduce Tower Hamlets Council's Statement of Accounts for 2010/11, which reports our financial results for the year.

For the first time, these accounts have been compiled in accordance with International Financial Reporting Standards, the Code of Practice on Local Authority Accounting in the United Kingdom 2010/11 and the Best Value Accounting Code of Practice. These constitute "proper accounting practice" with which councils must comply by statute. The Council also produce a summary of the accounts, which is less detailed than the full statement. This has been produced following consultation with stakeholders and is available from the Council's website at [www.towerhamlets.gov.uk](http://www.towerhamlets.gov.uk).

The Council's last Value for Money assessment was positive. Overall, the Council's finances are sound, and we will need this solid financial base as we face the period of continued tighter public spending ahead. Expenditure in 2010/11 was kept under control and the revenue budget ended the year slightly under spent. However general fund reserves have been applied to fund the costs of implementing a programme of savings in response to Government grant cuts, including some severance payments.

Pressures on the Council's budget year on year from demographic growth, new legislation and inflation will continue to put pressure on the Council's spending despite a reduction in income, while continuing uncertainty in the economy means that we have to plan for greater financial risk as we go forward.

Despite the challenges, Council Tax has been frozen at affordable levels for the third consecutive year and the Council has been able to set a balanced budget for 2011/12. We have identified in total some £55m worth of savings towards balancing the Council's finances over the three year cycle from 2011/12 to 2013/14. We have established robust processes to make sure these savings are delivered and will continue our efforts during 2011/12 to ensure that we continue to balance our budget on an annual basis.

Tower Hamlets Homes, the Council's Arms Length Management Organisation (or ALMO), was established in July 2008 to run Council housing in the Borough. These accounts therefore include Group Accounts, reflecting the financial position of the ALMO as well as the Council. The ALMO was inspected by the Audit Commission in 2010 and achieved a 2 Star performance with "promising prospects" and with it draw substantial new investment for housing to Tower Hamlets.

The Council has continued to invest in its infrastructure, especially housing, through its overcrowding strategy and secondary schools, through the Building Schools for the Future programme.

In summary whilst we will continue to face challenging times ahead, the Council through prudent and effective financial management is in a strong position financially to respond and to maintain itself as an improving Council in support of its local community.

**Chris Naylor ACA CPFA MA Cantab**  
**Corporate Director of Resources**

## REVIEW OF THE YEAR

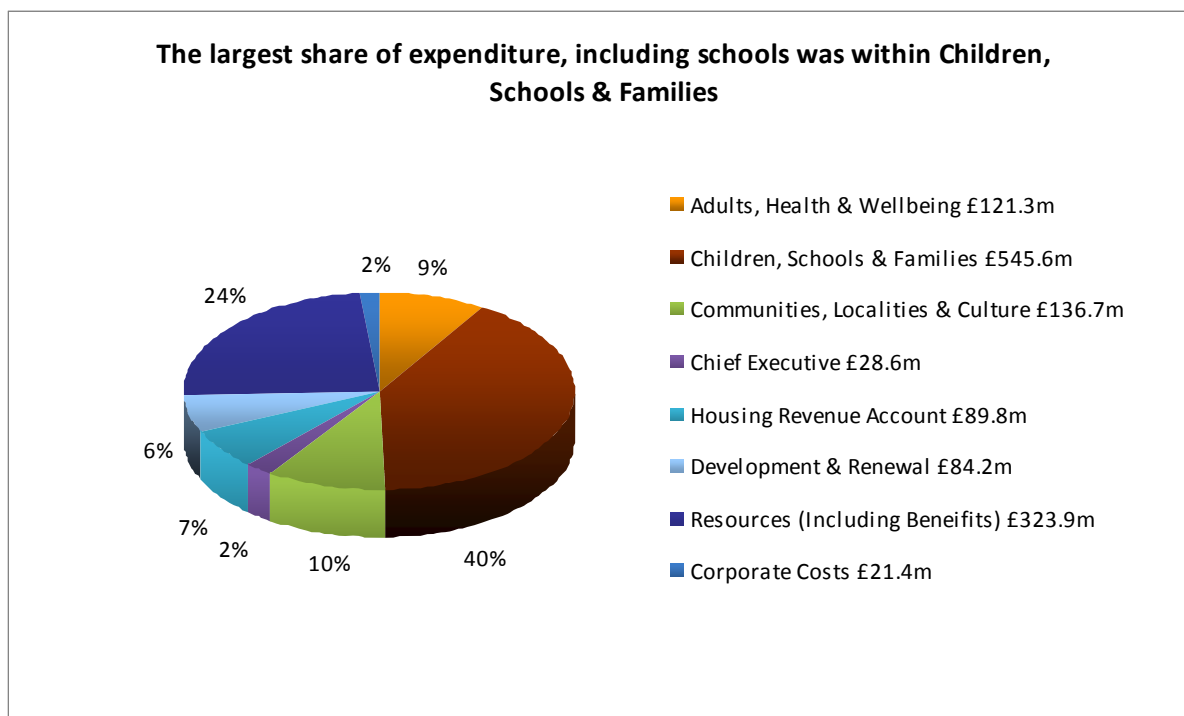
This is the first year where the Council's Statement of Accounts have been prepared on an International Financial Reporting (IFRS) basis. Details of the differences are shown in note 3 of the accounts where the 2009/10 accounts have been restated on an IFRS basis. The changes have required the Council's accounting policies to be revised to be compliant with IFRS. There are additional or different disclosures within the accounts under IFRS, though the impact of changes has been largely mitigated by legislation. Main changes concern the presentation of non-current assets and the accounting for employment benefits.

The Council's expenditure and income are defined either as revenue (spending on or income from the day to day running of services) or capital (spending on or income from items that provide a benefit for more than one year, such as building a school). The following shows revenue income and expenditure for the year.

### HOW THE MONEY WAS SPENT

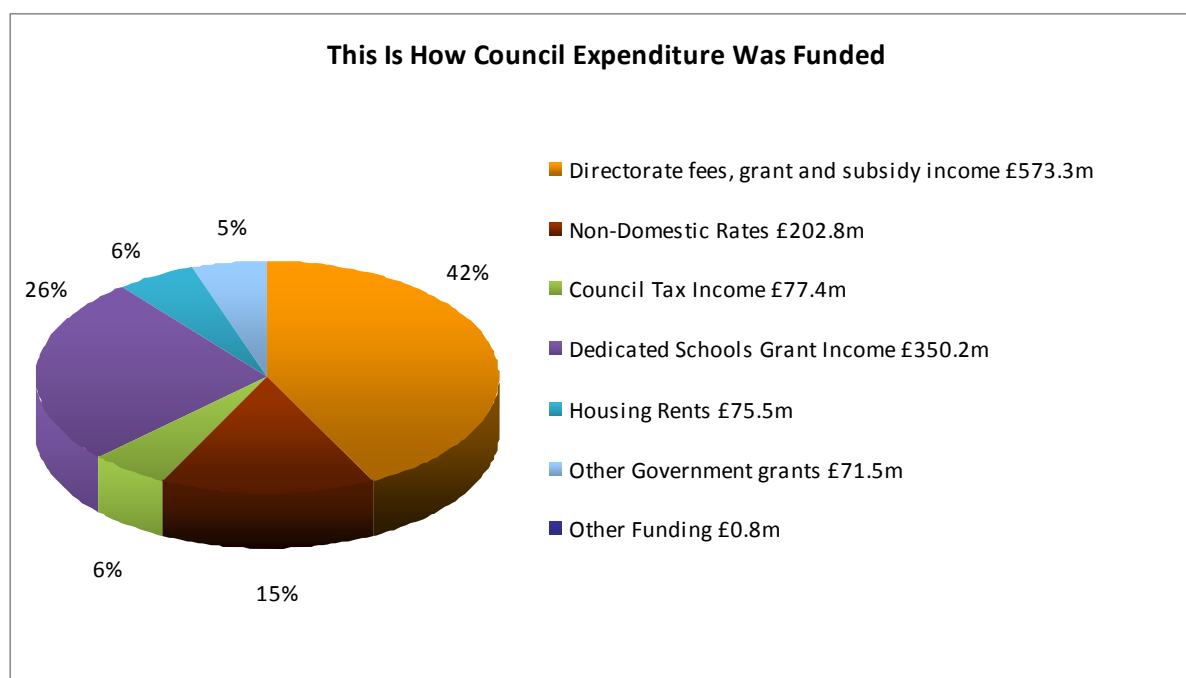
Excluding accounting adjustments, the Council Directorate's expenditure for the year was £1.35 billion.

An analysis of Directorate net spend is as follows:



## WHERE THE MONEY CAME FROM

The Council's sources of income to fund the above expenditure was as follows:



## Revenue Spend Compared To Budget

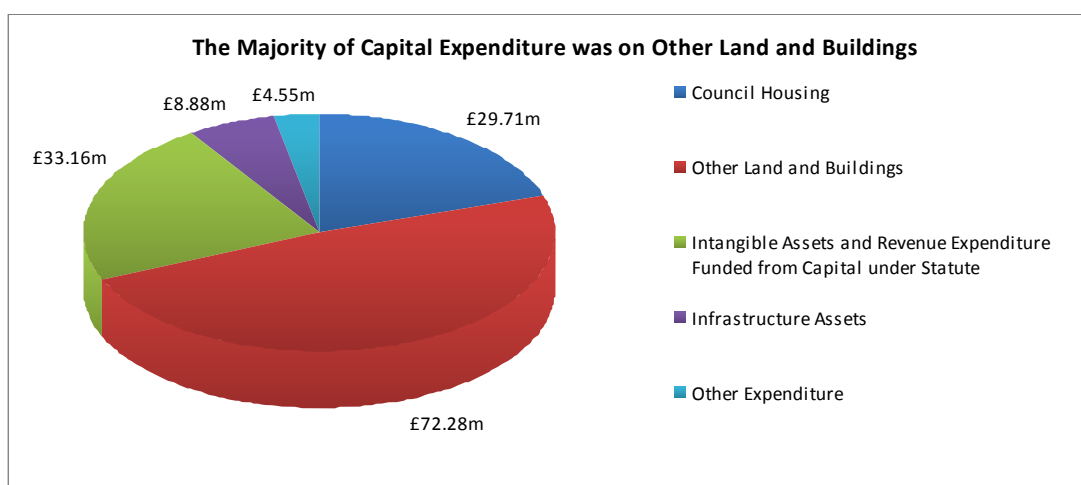
The Council's revenue expenditure and income is divided between "General Fund" (services excluding council housing) and the "Housing Revenue Account" (HRA) - a separate account for the Council acting as a housing landlord.

General Fund	Revised Budget £'m	Actual £'m	Variance £'m
Net service expenditure	345.5	352.3	6.8
Contingencies & other balances	0.0	(6.9)	(6.9)
<b>Service budget requirement</b>	<b>345.5</b>	<b>345.4</b>	<b>(0.1)</b>
Contribution from GF balance	0.0	(3.8)	(3.8)
Other balances / contingency	7.0	0.0	(7.0)
New Corporate Reserves created	0.0	10.9	10.9
Government Grants			
Redistributed Business Rates	(202.8)	(202.8)	-
Formula Grant	(29.4)	(29.4)	-
Area Based Grant	(42.1)	(42.1)	-
Surplus on Collection Fund allocated	(3.5)	(3.5)	-
<b>Council Tax requirement</b>	<b>74.7</b>	<b>74.7</b>	<b>-</b>

The HRA expenditure requirement for the year was agreed at £90.5 million. In total there was a net over spend of £38,000. Overall the HRA balance has reduced by a total of £0.2 million.

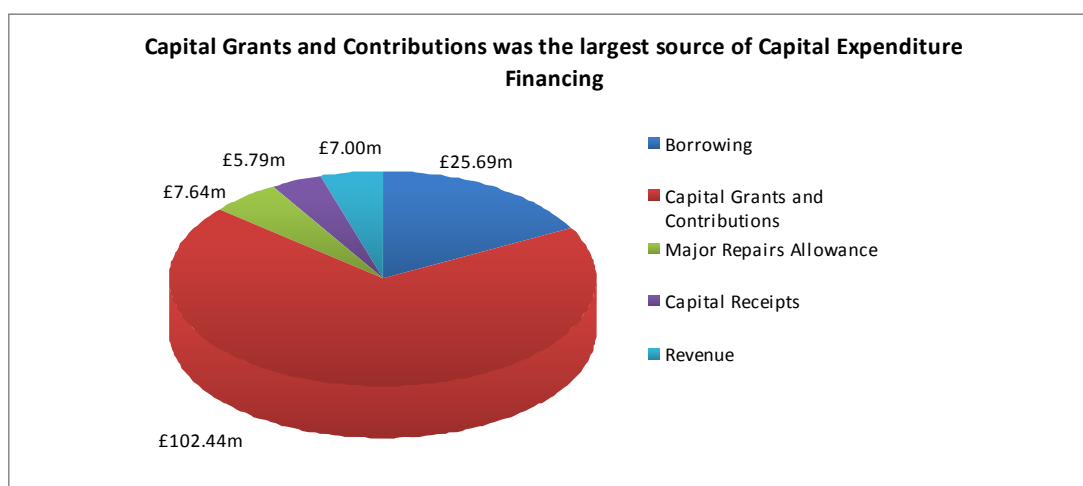
<b>Housing Revenue Account</b>	<b>Revised Budget £'m</b>	<b>Actual £'m</b>	<b>Variance £'m</b>
Expenditure	91.2	90.4	<b>(0.8)</b>
Contribution from HRA Reserve	(0.7)	(0.2)	<b>0.5</b>
<b>Budget requirement</b>	<b>90.5</b>	<b>90.2</b>	<b>(0.3)</b>
Income			
Rents	(59.1)	(59.3)	<b>(0.2)</b>
Government grant	(13.6)	(14.1)	<b>(0.5)</b>
Charges and contributions	(17.6)	(16.7)	<b>0.9</b>
Interest	(0.2)	(0.1)	<b>0.1</b>
<b>Total Income</b>	<b>(90.5)</b>	<b>(90.2)</b>	<b>0.3</b>

### CAPITAL EXPENDITURE



Capital spending during the year amounted to £148.58 million (£139.38 million in 2009/10). £29.71 million (£54.97 million in 2009/10) of this was on projects relating to improvement of the Council's housing stock. Capital expenditure on other land and buildings was £72.78 million (£54.12 million in 2009/10), of which the majority relates to the refurbishment, improvement and extension of schools in the borough. Infrastructure spending of £8.88 million (£7.69 million in 2009/10) was mainly on improving the existing roads system within the borough and the provision of street lighting. Other expenditure comprises equipment, which amounted to £2.51 million (£1.87 million in 2009/10) and a further £1.61 million (£3.50 million in 2009/10) was spent on improving parks and open spaces in the borough. Spending on Intangible Assets and Revenue Expenditure Funded from Capital under Statute (REFCUS) includes information technology, home improvement grants paid to homeowners, expenditure on diocese-owned schools, and grants paid to voluntary organisations, and amounted to £33.16 million (£17.23 million in 2009/10).

## HOW CAPITAL SPENDING WAS PAID FOR



The Government pays the Council a grant called the Major Repairs Allowance to be spent on its housing stock. The amount of this grant spent in the year was £7.64 million (£13.84 million in 2009/10). Capital receipts are income from the sale of assets, such as council houses and this income must be used to pay for capital spend. £5.79 million was used in 2010/11 (£11.39 million in 2009/10). The Council can pay for capital spending from its revenue monies and £7.00 million was used in the year (£14.44 million in 2009/10). There are other Government grants which have to be used for specific projects and the Council receives contributions from others (for example developers). A total of £102.44 million was used in 2010/11 (£76.78 million in 2009/10). The Council is allowed to borrow money to finance capital spending and £25.69 million was borrowed in the year (£22.93 million in 2009/10).

## PENSIONS

The Council offers retirement pensions to its staff under a statutory scheme and makes contributions to pension schemes on their behalf. Although the pension benefits are not payable until employees retire, the Council has a commitment to make the payments and must account for them in the year in which the future entitlements are earned. This commitment is compared with the assets (investments) of the pension schemes and the net amount is included in the accounts as the Council's "Pensions Liability".

At the end of 2010/11 this liability was £308.69 million (£670.69 million 2009/10). Although this sum has a significant impact on the net worth of the Council as shown in its Balance Sheet, there are statutory arrangements for meeting the liability. The deficit will be addressed by increased contributions to the schemes over the remaining working lives of the staff. These contributions were assessed by the Council's actuary in 2010 and a budget provision has been made accordingly. The main reason for the reduction in liability was the change in future pension increases from the Retail Price Index (RPI) to the Consumer Price Index (CPI), the £134 million reduction liability is shown within actuarial gains or losses on pension assets and liabilities as a result of a change in assumption.

## FURTHER INFORMATION

Further information about the accounts and a copy of the summary of accounts are available from the Head of Corporate Finance, Mulberry Place, 5 Clove Crescent, London, E14 2BG. The summary is also on the Council's website at [www.towerhamlets.gov.uk](http://www.towerhamlets.gov.uk).

## THE ACCOUNTING STATEMENTS

These comprise:

The **Statement of Accounting Policies** on which the figures in the accounts are based.

The **Core Financial Statements**:

The Movement in Reserves Statement, as well as showing reserve movements during the year, it also splits reserves between 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves. The Surplus or (Deficit) on the Provision of Services line shows the true economic cost of providing the Council's services, more details of which are shown in the Comprehensive Income and Expenditure Statement.

The **Comprehensive Income and Expenditure Account** which reports the net cost for the year of all the functions for which the Council is responsible and demonstrates how the cost has been financed from general Government grants and income from local taxpayers. It brings together income and expenditure relating to all the Council's functions in three distinct sections, each divided by a sub-total, to give the net deficit or surplus for the year.

The **Balance Sheet** which shows the Council's financial position at the year-end - its balances and reserves and its long-term indebtedness, and the fixed and net current assets employed in its operational activities together with summarised information on the fixed assets held.

The **Cash Flow Statement** which summarises the inflows and outflows of cash arising from transactions with third parties for revenue and capital purposes. Cash is defined as cash in hand and deposits repayable on demand less overdrafts repayable on demand.

### Notes to the Core Financial Statements

Changes in the accounting treatment under IFRS are explained within the Statements.

The **Housing Revenue Account (HRA)** which reflects a statutory obligation to maintain a revenue account for local authority housing provision in accordance with Part 6 of the Local Government and Housing Act 1989, and details the credit and debit items required to be taken into account in determining the surplus or deficit on the HRA for the year. It is accompanied by the **Statement of Movement on the HRA Balance** and appropriate **Notes**.

The **Collection Fund** which shows the transactions of the Council in relation to non-domestic rates and Council Tax and illustrates the way these have been distributed between Tower Hamlets Council and the Greater London Authority. It reflects the statutory requirement for billing authorities such as the Council to maintain a separate account.

The **Group Accounts** which combine the financial activities and position of the Council and its subsidiary Arms Length Management Organisation (ALMO), Tower Hamlets Homes, into amalgamated Core Financial Statements

The **Pension Fund Accounts** which provide information about the financial position, performance and the financial adaptability of the statutory pension fund. They show the results for the fund for the year and the disposition of its assets at the period end.

We try to produce the statements in a form that is understandable to most stakeholders. However, they include some technical terms which are explained in the **Glossary**.



## MOVEMENT IN RESERVES STATEMENT

This statement shows the movement in the year on the different reserves held by the Council, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves. The Surplus or (Deficit) on the Provision of Services line shows the true economic cost of providing the Council's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the General Fund Balance and the Housing Revenue Account for council tax setting and dwellings rent setting purposes. The Net Increase/Decrease before Transfers to Earmarked Reserves line shows the statutory General Fund Balance and Housing Revenue Account Balance before any discretionary transfers to or from earmarked reserves undertaken by the Council.

	NOTES	USABLE RESERVES								UNUSABLE RESERVES	
		GENERAL FUND BALANCE £'000	earmarked GENERAL FUND RESERVES* £'000	HOUSING REVENUE ACCOUNT BALANCE £'000	MAJOR REPAIRS RESERVE £'000	CAPITAL RECEIPTS RESERVE £'000	DEFERRED CAPITAL RECEIPTS £'000	CAPITAL GRANTS UNAPPLIED £'000	TOTAL USABLE RESERVES £'000	TOTAL UNUSABLE RESERVES £'000	TOTAL AUTHORITY RESERVES £'000
<b>Balance as at 31 March 2009</b>		27,102	115,033	23,301	2,354	18,091	412	14,429	<b>200,722</b>	<b>1,302,637</b>	<b>1,503,359</b>
<b><u>Movement in reserves during 2009/10</u></b>											
Surplus or (Deficit) on the Provision of Services		(2,519)		(17,518)					(20,037)	0	(20,037)
Other comprehensive expenditure and income									0	(378,965)	(378,965)
<b>Total Comprehensive Expenditure and Income</b>		<b>(2,519)</b>	<b>0</b>	<b>(17,518)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(20,037)</b>	<b>(378,965)</b>	<b>(399,002)</b>
Adjustments between accounting basis and funding basis under regulations	<a href="#">6</a>	(8,429)	0	7,195	(1,280)	(1,781)	(114)	2,070	(2,339)	2,339	0
<b>Net Increase or Decrease before Transfers to Earmarked Reserves</b>		<b>(10,948)</b>	<b>0</b>	<b>(10,323)</b>	<b>(1,280)</b>	<b>(1,781)</b>	<b>(114)</b>	<b>2,070</b>	<b>(22,376)</b>	<b>(376,626)</b>	<b>(399,002)</b>
Transfers to or from earmarked reserves	<a href="#">7</a>	10,979	(10,979)						0	0	0
<b>Increase or (Decrease) in 2009/10</b>		<b>31</b>	<b>(10,979)</b>	<b>(10,323)</b>	<b>(1,280)</b>	<b>(1,781)</b>	<b>(114)</b>	<b>2,070</b>	<b>(22,376)</b>	<b>(376,626)</b>	<b>(399,002)</b>
<b>Balance as at 31 March 2010 carried forward</b>		<b>27,133</b>	<b>104,054</b>	<b>12,978</b>	<b>1,074</b>	<b>16,310</b>	<b>298</b>	<b>16,499</b>	<b>178,346</b>	<b>926,011</b>	<b>1,104,357</b>
<b><u>Movement in reserves during 2010/11</u></b>											
Surplus or (Deficit) on the Provision of Services		163,714		(291,457)					(127,743)	0	(127,743)
Other comprehensive expenditure and income									0	291,723	291,723
<b>Total Comprehensive Expenditure and Income</b>		<b>163,714</b>	<b>0</b>	<b>(291,457)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(127,743)</b>	<b>291,723</b>	<b>163,980</b>
Adjustments between accounting basis and funding basis under regulations	<a href="#">6</a>	(162,168)	0	291,266	5,271	8,115	(57)	3,251	145,678	(145,678)	0
<b>Net Increase or Decrease before Transfers to Earmarked Reserves</b>		<b>1,546</b>	<b>0</b>	<b>(191)</b>	<b>5,271</b>	<b>8,115</b>	<b>(57)</b>	<b>3,251</b>	<b>17,935</b>	<b>146,045</b>	<b>163,980</b>
Transfers to or from earmarked reserves	<a href="#">7</a>	(1,042)	1,042						0	0	0
Transfers to or from school reserves		(4,258)	4,258								
<b>Increase or (Decrease) in Year</b>		<b>(3,754)</b>	<b>5,300</b>	<b>(191)</b>	<b>5,271</b>	<b>8,115</b>	<b>(57)</b>	<b>3,251</b>	<b>17,935</b>	<b>146,045</b>	<b>163,980</b>
<b>Balance as at 31 March 2011</b>		<b>23,379</b>	<b>109,354</b>	<b>12,787</b>	<b>6,345</b>	<b>24,425</b>	<b>241</b>	<b>19,750</b>	<b>196,281</b>	<b>1,072,056</b>	<b>1,268,337</b>

## COMPREHENSIVE INCOME AND EXPENDITURE ACCOUNT

This statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. The Council raises taxation to cover expenditure in accordance with regulations - this may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement.

Gross Expenditure	2009/10		Note	2010/11		
	Gross Income	Net Expenditure		Gross Expenditure	Gross Income	Net Expenditure
£'000	£'000	£'000		£'000	£'000	£'000
<b>Continuing Operations</b>						
141,060	40,399	100,661	Cultural, Environmental, Regulatory and Planning Services	117,491	31,365	86,126
85,970	75,838	10,132	Central Services	48,533	38,027	10,506
508,330	408,073	100,257	Children's and Education Services	514,007	416,818	97,189
26,995	21,444	5,551	Highways and Transport Services	29,927	19,449	10,478
86,707	90,760	(4,053)	Local Authority Housing (Housing Revenue Account)	375,395	91,586	283,809
284,946	274,338	10,608	Other Housing Services	295,572	272,252	23,320
112,615	16,249	96,366	Adult Social Care	121,500	27,165	94,335
10,472	4,769	5,703	Corporate and Democratic Core	12,281	1,118	11,163
17,825	1	17,824	Non-distributed Costs	15,757	0	15,757
<b>1,274,920</b>	<b>931,871</b>	<b>343,049</b>	<b>NET COST OF SERVICES</b>	<b>1,530,463</b>	<b>897,780</b>	<b>632,683</b>
		36,543	Other Operating Expenditure <a href="#">8</a>			18,202
		49,209	Financing and Investment Income and Expenditure <a href="#">9</a>			(87,346)
		14	Surplus or deficit of trading operations <a href="#">28</a>			(98)
		(408,778)	Taxation and Non-Specific Grant Income <a href="#">10</a>			(435,698)
		<b>20,037</b>	<b>(SURPLUS) OR DEFICIT ON THE PROVISION OF SERVICES</b>			<b>127,743</b>
			<b>Other Comprehensive Income and Expenditure</b>			
		(36,638)	Surplus on revaluation of non-current assets			(31,761)
		415,603	Actuarial (gains) or losses on pension assets and liabilities			(259,963)
		<b>378,965</b>	<b>OTHER COMPREHENSIVE INCOME AND EXPENDITURE</b>			<b>(291,724)</b>
<b>399,002 TOTAL COMPREHENSIVE INCOME AND EXPENDITURE</b>						<b>(163,981)</b>

# BALANCE SHEET

This statement shows the Council's balances and reserves, its long term indebtedness and the fixed assets and net current assets employed in its operations as at 31st March 2011.

1 April 2009 £'000	31 March 2010 £'000		Notes	31 March 2011 £'000
		<b>Long-term Assets</b>		
2,055,552	2,109,420	Property, plant and equipment	<a href="#">11</a>	<b>1,896,553</b>
855	1,067	Long Term Debtors	<a href="#">13</a>	<b>1,008</b>
<b>2,056,407</b>	<b>2,110,487</b>	<b>Total Long-term assets</b>		<b>1,897,561</b>
		<b>Current Assets</b>		
14,267	40,818	Short-term investments	<a href="#">14</a>	138,529
303	531	Inventories	<a href="#">15</a>	821
80,618	88,620	Short-term debtors	<a href="#">18</a>	87,331
91,612	81,700	Cash and cash equivalents	<a href="#">19</a>	98,963
<b>186,800</b>	<b>211,669</b>	<b>Total Current Assets</b>		<b>325,644</b>
		<b>Current liabilities</b>		
0	0	Cash and cash equivalents	<a href="#">19</a>	0
13,600	15,324	Short-term borrowing	<a href="#">14</a>	35,485
89,112	96,519	Short-term creditors	<a href="#">21</a>	127,588
475	1,003	Provisions	<a href="#">22</a>	855
3,762	4,207	Provisions for accumulated absences		4,418
<b>106,949</b>	<b>117,053</b>	<b>Total Current liabilities</b>		<b>168,346</b>
		<b>Long Term Liabilities</b>		
8,085	10,213	Provisions	<a href="#">22</a>	12,014
251,785	302,475	Long-term borrowing	<a href="#">14</a>	325,533
270,565	689,924	Liability related to defined benefit pension schemes		308,691
52,819	50,030	Capital grants receipts in advance	<a href="#">35</a>	90,474
38,637	38,287	Deferred liabilities	<a href="#">39</a>	41,090
11,006	9,817	Deferred Income - Receipt in Advance		8,717
<b>632,897</b>	<b>1,100,746</b>	<b>Total Long-Term Liabilities</b>		<b>786,519</b>
<b>1,503,361</b>	<b>1,104,357</b>	<b>NET ASSETS</b>		<b>1,268,340</b>
		<b>Reserves</b>		
		<b>Usable Reserves</b>		
27,102	27,134	General Fund		23,380
23,301	12,978	Housing Revenue Account		12,786
94,497	84,942	Earmarked reserves		85,984
20,536	19,111	Schools reserves		23,370
18,091	16,309	Capital receipts reserve		24,424
412	298	Deferred capital receipts		241
14,429	16,500	Capital grants unapplied		19,751
2,354	1,074	Major repairs reserve		6,346
<b>200,722</b>	<b>178,346</b>	<b>Total Usable Reserves</b>		<b>196,282</b>
		<b>Unusable Reserves</b>	<a href="#">24</a>	
486,712	509,897	Revaluation Reserve		528,722
1,090,570	1,105,580	Capital Adjustment Account		852,406
0	0	Collection Fund		0
(597)	3,902	Collection Fund Adjustment Account		3,154
280	764	Financial Instruments Adjustment Account		885
(270,565)	(689,924)	Pensions reserve		(308,691)
(3,761)	(4,208)	Accumulated Absences Account		(4,418)
<b>1,302,639</b>	<b>926,011</b>	<b>Total Unusable Reserves</b>		<b>1,072,058</b>
<b>1,503,361</b>	<b>1,104,357</b>	<b>TOTAL RESERVES</b>		<b>1,268,340</b>

## CASH FLOW STATEMENT

The Cash Flow Statement shows the changes in cash and cash equivalents of the authority during the reporting period. The statement shows how the authority generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the authority are funded by way of taxation and grant income or from the recipients of services provided by the authority. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the authority's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the authority.

2009/10		Notes	2010/11
£'000			£'000
(20,037)	Net surplus or (deficit) on the provision of services		(127,743)
98,314	Adjustments to net surplus or deficit on the provision of services for non cash movements	<a href="#">25A</a>	272,277
(64,346)	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities		(119,569)
<b>13,931</b>	<b>Net cash flows from Operating Activities</b>	<a href="#">25</a>	<b>24,965</b>
(76,084)	Investing Activities	<a href="#">26</a>	(50,602)
52,241	Financing Activities	<a href="#">27</a>	42,900
<b>(9,912)</b>	<b>Net increase or decrease in cash and cash equivalents</b>		<b>17,263</b>
91,612	Cash and cash equivalents at the beginning of the reporting period		81,700
<b>81,700</b>	<b>Cash and cash equivalents at the end of the reporting period</b>	<a href="#">19</a>	<b>98,963</b>

## NOTE 1. STATEMENT OF ACCOUNTING POLICIES

### 1. General Principles

The Statement of Accounts summarises the Authority's transactions for the 2010/11 financial year and its position at the year-end of 31<sup>st</sup> March 2011. The Authority is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2003 which require the document to be prepared in accordance with proper accounting practices.

These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2010/11 and the *Best Value Accounting Code of Practice 2010/11*, supported by International Financial Reporting Standards (IFRS) and statutory guidance issued under section 12 of the 2003 Act.

The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

This is to ensure that the Statement of Accounts gives a true and fair view of the financial position of the Council including the group accounts for the year ending 31<sup>st</sup> March 2011 and to ensure it is compliant with relevant statutory accounting requirements issued by the International Accounting Standards Board (IASB). Expenditure and income are reported in accordance with a total cost basis of accounting. Gross total cost includes all expenditure attributable to the service/activity, including employee costs, expenditure relating to premises and transport, supplies and services, third party payments, transfer payments, support services and depreciation. No categories of income are considered to be abatements of expenditure, and movements to and from reserves are excluded from total cost.

The accounting concepts of 'materiality', 'accruals', 'going concern' and 'primacy of legislative requirements' have been considered in the application of accounting policies. In this regard the:

- Materiality concept means that information is included where the information is of such significance as to justify its inclusion.
- Accruals concept requires the non-cash effects of transactions to be included in the financial statement for the year in which they occur, not in the period in which the cash is paid or received.
- Going concern concept assumes that the Council will continue in operational existence for the foreseeable future
- Primacy of Legislation - local authorities derive their power from statute and their financial and accounting framework is closely controlled by legislation. Where there is conflict between a legal requirement and an accounting standard, the legal requirement will take precedence.

### 2. Accruals of Income and Expenditure

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

- Revenue from the sale of goods is recognised when the Authority transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Authority.
- Revenue from the provision of services is recognised when the Authority can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Authority. This includes the accounting of fees, charges and rents due from customers, these are accounted for as income at the date the Council provides the relevant goods or services.
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption; they are carried as inventories on the Balance Sheet.
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.
- Exceptionally, income in respect of adults in residential care under the National Assistance Act 1948 is accounted for on a cash basis, although the amount involved is not material to the presentation of the accounts.
- The Council operates a de minimus of £5,000 below which items of income and expenditure are not normally accrued for.

### **3. Cash and Cash Equivalents**

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice. Cash equivalents are investments that mature no more than three months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand within the short-term and form an integral part of the Authority's cash management.

### **4. Exceptional Items**

When items of income and expense are material, their nature and amount is disclosed separately, either on the face of the Comprehensive Income and Expenditure Statement or in the notes to the accounts, depending on how significant the items are to an understanding of the Authority's financial performance.

### **5. Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors**

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change and do not give rise to a prior period adjustment.

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Authority's financial position or financial performance. Where a change is made, it is applied retrospectively (unless stated otherwise or not material) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

The impact to accounting policies of future changes to legislation or accounting standards has to be disclosed, these are disclosed below.

**5a. The following Accounting Standards have been issued but have not been adopted**

**Heritage Assets** - For 2011/12, the adoption of FRS 30 *Heritage Assets* in the Code is a change of accounting policy that will require the publication of a Balance Sheet as at the beginning of the earliest comparative period (i.e. a third Balance Sheet) in the 2011/12 financial statements where the restatement and/or re-measurement of heritage assets is material. In addition, the disclosures required by section 4.10.4 of the Code shall be provided for the comparative year in the 2011/12 financial statements.

**Community Assets** - Where an authority has elected to measure community assets at valuation, this is a change of accounting policy that will require the publication of a Balance Sheet as at the beginning of the earliest comparative period (i.e. a third Balance Sheet) in the 2011/12 financial Statements where the restatement and/or re-measurement of heritage assets is material. Where an authority has elected to make disclosures in respect of community assets in accordance with section 4.10 of the Code rather than section 4.1 of the Code, these disclosures shall be provided for the comparative year in the 2011/12 financial statements.

**6. Charges to Revenue for Non-Current Assets**

Service revenue accounts, support services and trading accounts are debited with the following amounts to record the cost of holding fixed assets during the year:

- Depreciation attributable to the assets used by the relevant service
- Re valuation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off
- amortisation of intangible fixed assets attributable to the service

The Council is not required to raise Council Tax to fund depreciation, revaluation, impairment losses or amortisations. However, it is required to make an annual provision from revenue to contribute towards the reduction in its overall borrowing requirement (equal to an amount calculated on a prudent basis determined by the Council in accordance with statutory guidance). Depreciation, revaluation and impairment losses and amortisations are therefore replaced by the contribution in the General Fund Balance (Minimum Revenue Provision), by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

## **7. Employee Benefits**

### **a. Benefits Payable during Employment**

Short-term employee benefits are those due to be settled within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits for current employees and are recognised as an expense for services in the year in which employees render service to the Authority. If material, an accrual is made for the cost of holiday entitlements (or any form of leave, e.g. time off in lieu) earned by employees but not taken before the year-end which employees can carry forward into the next financial year. The accrual is made at the wage and salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

### **b. Termination Benefits**

Termination benefits are amounts payable as a result of a decision by the Authority to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy and are charged on an accruals basis to the Non Distributed Costs line in the Comprehensive Income and Expenditure Statement when the Authority is demonstrably committed to the termination of the employment of an officer or group of officers or making an offer to encourage voluntary redundancy and a reliable estimate can be made of the cost.

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund balance to be charged with the amount payable by the Authority to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end.

### **c. Post-Employment Benefits**

Employees of the Council are members of three separate pension schemes:

- The Local Government Pension Scheme, administered by the Council
- The Local Government Pension Scheme, administered by the London Pensions Fund Authority
- The Teachers' Pension Scheme, administered by Capita Teachers' Pensions on behalf of the Department for Education (DfE).

All the schemes provide defined benefits to members (retirement lump sums and pensions), earned as employees work for the Council.

However, the arrangements for the Teachers' scheme mean that liabilities for these benefits cannot be identified to the Council. The scheme is therefore accounted for as if it were a defined contributions scheme – no liability for future payments of benefits is recognised in the Balance Sheet. The Children's and Education Services line in the Comprehensive Income and Expenditure Statement is charged with the employer's



contributions payable to Teachers' Pensions in the year. The DfE set the teacher's pension contribution rate.

## **The Local Government Pension Scheme**

The Local Government scheme is a defined benefits scheme.

The Council's wholly owned subsidiary, Tower Hamlets Homes Limited (THH), is a Local Government Pension Scheme Employer in accordance with the Local Government Pension Scheme (Amendment) Regulations 2002. The Council has indemnified THH in respect of all liabilities that have arisen or may arise from its pension obligations.

The liabilities of the pension scheme attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method – an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc. and estimates of projected earnings for current employees.

Council liabilities are discounted to their value at current prices, using a discount rate derived from corporate bond yields (as measured by the yield on iboxx Sterling Corporates Index, AA over 15 years) as at 31<sup>st</sup> March 2011.

Assets attributable to the Council are included in the Balance Sheet at their fair value. Quoted or unitised securities are valued at current bid price; unquoted securities on the basis of professional estimate; and property at market value.

The change in the net pension liability is analysed into seven components:

- current service cost – the increase in liabilities as a result of years of service earned this year, allocated in the Comprehensive Income and Expenditure Statement to the revenue accounts of services for which the employees worked.
- past service cost – the increase in liabilities arising from current year decisions the effect of which relates to years of service earned in earlier years, debited to the Surplus or Deficit on the Provision of Services as part of Non Distributed Costs within the Comprehensive Income and Expenditure Statement.
- interest cost – the expected increase in the present value of liabilities during the year as they move one year closer to being paid, debited to Financing and Investment Income and Expenditure in the Comprehensive Income and Expenditure Statement.
- expected return on assets – the annual investment return on the fund assets attributable to the Council, based on an average of the expected long-term return, credited to Financing and Investment Income and Expenditure in the Comprehensive Income and Expenditure Statement.
- gains and losses on settlements and curtailments – the result of actions to relieve the Council of liabilities or events that reduce the expected future service or accrual of benefits of employees, credited or debited to the Surplus or Deficit on the Provision of Services as part of Non Distributed Costs within the Comprehensive Income and Expenditure Statement.
- actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions, debited to the Pensions Reserve. The gain from the change in inflation factor for future pension benefits (now the Consumer Price Index) has been treated as a change in the expected return on pension fund assets within the financing and investment income and expenditure line within the Comprehensive Income and Expenditure Account.

- contributions paid to the pension funds – cash paid as employer's contributions to the pension funds.

In relation to retirement benefits, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the pension fund in the year, not the amount calculated according to the relevant accounting standards. In the Movement of Reserves Statement, this means that there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension funds and any amounts payable to the funds but unpaid at the year-end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees as calculated under IAS19.

### **Discretionary Benefits**

The Council also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff (including teachers) are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

## **8. Events after the Balance Sheet date**

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts is adjusted to reflect such material events
- those that are indicative of conditions that arose after the reporting period – the Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect, or a statement that an estimate cannot be reliably made.

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

Events after the Balance Sheet date are reflected up to the date when the Statement of Accounts is authorised for issue (these will be added as matters arise).

## **9. Financial Instruments**

### **a. Financial Liabilities**

Financial liabilities are recognised on the Balance Sheet when the Authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and are carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

For most of the borrowings that the Authority has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest); and interest

charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement.

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement in the year of repurchase/settlement. However, where repurchase has taken place as part of a restructuring of the loan portfolio that involves the modification or exchange of existing instruments, the premium or discount is respectively deducted from or added to the amortised cost of the new or modified loan and the write-down to the

Comprehensive Income and Expenditure Statement is spread over the life of the loan by an adjustment to the effective interest rate.

Where premia and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the General Fund Balance to be spread over future years. The Council has a policy of spreading the gain or loss over the term that was remaining on the loan against which the premium was payable or discount receivable when it was repaid. The reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement to the net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

## **b. Financial Assets**

Financial assets are classified into two types:

- loans and receivables – assets that have fixed or determinable payments but are not quoted in an active market
- available-for-sale assets – assets that have a quoted market price and/or do not have fixed or determinable payments

## **Loans and Receivables**

The Council has no available-for-sale assets. Loans and receivables are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and carried at their amortised cost. Annual credits to the Financing and Investment line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the loans that the Council has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

Were soft loans to be made (loans at less than market rates), a loss is recorded in the Comprehensive Income and Expenditure Statement for the present value of the interest that will be foregone over the life of the instrument, resulting in a lower amortised cost than the outstanding principal. Interest is credited at a marginally higher effective rate of interest than the rate receivable from the relevant organisations, with the difference serving to increase the amortised cost of the loan in the Balance Sheet. Statutory provisions require that the impact of soft loans on the General Fund Balance is the interest receivable for the financial year – the reconciliation of amounts debited and credited to the Comprehensive Income and Expenditure Statement to the net gain required against the General Fund Balance is

managed by a transfer to or from the Financial Instruments Adjustment Account in the Statement of Movement on the General Fund Balance.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the relevant service (for receivables specific to that service) or the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

Any gains and losses that arise on the derecognition of the asset are credited / debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

## **10. Foreign Currency Translation**

Where the Authority has entered into a transaction denominated in a foreign currency, the transaction is converted into sterling at the exchange rate applicable on the date the transaction was effective. Where amounts in foreign currency are outstanding at the year-end, they are reconverted at the spot exchange rate at 31<sup>st</sup> March. Resulting gains or losses are recognised in the Financing and Investment line of the Comprehensive Income and Expenditure Statement.

## **11. Government Grants and Contributions**

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the Authority when there is reasonable assurance that:

- the Authority will comply with the conditions attached to the payments, and
- the grants or contributions will be received.

Amounts recognised as due to the Council are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset acquired using the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors (revenue grants) or Capital Grants Receipts in Advance account (capital grants). When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or Taxation and Non-Specific Grant Income (non-ringfenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement. Unapplied revenue grants without repayment conditions are shown as earmarked reserves.

Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance in the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied reserve. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

Where a repayment of grants or contributions becomes repayable where the grant or contribution has previously been recognised in the Comprehensive Income and Expenditure

Statement the repayment is recognised as an expense in the Comprehensive Income and Expenditure Statement.

Government grants and contributions may be received subject to a condition that it is returned to the transferor if a specified future event does or does not occur. A return obligation does not arise until such time as it is expected that the condition will be breached and a liability is not recognised until that time. Such conditions do not prevent the grant, contribution or donated asset being recognised as income in the Comprehensive Income and Expenditure Statement

## **12. Intangible Long Term Assets**

Expenditure on non-monetary assets that do not have physical substance but are controlled by the Authority as a result of past events (e.g. software licences) is capitalised when it is expected that future economic benefits or service potential will flow from the intangible asset to the Authority.

Internally generated assets are capitalised where it is demonstrable that the project is technically feasible and is intended to be completed (with adequate resources being available) and the Authority will be able to generate future economic benefits or deliver service potential by being able to sell or use the asset. Expenditure is capitalised where it can be measured reliably as attributable to the asset and is restricted to that incurred during the development phase (research expenditure cannot be capitalised). Annual software licence fees are charged to capital and amortised in that year

Expenditure on the development of websites is not capitalised if the website is solely or primarily intended to promote or advertise the Authority's goods or services.

Intangible assets are measured initially at cost. Amounts are only revalued where the fair value of the assets held by the Authority can be determined by reference to an active market. In practice, no intangible asset held by the Authority meets this criterion, and they are therefore carried at amortised cost. The depreciable amount of an intangible asset is amortised over its useful life to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. An asset is tested for impairment whenever there is an indication that the asset might be impaired – any losses recognised are posted to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. Any gain or loss arising on the disposal or abandonment of an intangible asset is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement.

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses are not permitted to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

## **13. Interests in Companies and Other Entities**

The Council has a material interest in Tower Hamlets Homes which is a wholly owned subsidiary of the Council and which requires group accounts to be prepared. The Council, as part of the Government's Building Schools for the Future (BSF) initiative, also has a ten percent shareholding in the delivery company Tower Hamlets Local Education Partnership Ltd. but has determined that the interest is outside the group accounts requirement. In the

Council's own single-entity accounts, interests in companies and other entities are recorded as financial assets at cost, less any provision for losses.

#### **14. Inventories and Long Term Contracts**

Inventories (stocks) are included in the Balance Sheet at the lower of cost and net realisable value. Where material, the council would select a valuation process appropriate for the asset.

Long term contracts are accounted for on the basis of charging the Surplus or Deficit on the Provision of Services with the value of works and services received under the contract during the financial year.

#### **15. Investment Property**

Investment properties are those that are used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods or is held for sale. Note, the Council has a number of commercial shops held as part of service provision to the local community, these are not held solely to generate rentals or to capital appreciation so are not classed as investment properties.

Investment properties are measured initially at cost and subsequently at fair value, based on the amount at which the asset could be exchanged between knowledgeable parties at arm's-length. Properties are not depreciated but are revalued annually according to market conditions at the year-end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

Rentals received in relation to investment properties are credited to the Financing and Investment Income line and result in a gain for the General Fund Balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

#### **16. Jointly Controlled Operations and Jointly Controlled Assets**

Jointly controlled operations are activities undertaken by the Authority in conjunction with other venturers that involve the use of the assets and resources of the venturers rather than the establishment of a separate entity. The Authority recognises on its Balance Sheet the assets that it controls and the liabilities that it incurs and debits and credits the Comprehensive Income and Expenditure Statement with the expenditure it incurs and the share of income it earns from the activity of the operation.

Jointly controlled assets are items of property, plant or equipment that are jointly controlled by the Authority and other venturers, with the assets being used to obtain benefits for the venturers. The joint venture does not involve the establishment of a separate entity. The Authority accounts for only its share of the jointly controlled assets, the liabilities and expenses that it incurs on its own behalf or jointly with others in respect of its interest in the joint venture and income that it earns from the venture.

## **17. Leases**

The Council has reviewed in detail its leases and has determined that, except for PFI agreements, there are a small number of finance leases with immaterial asset value, so the agreement costs are charged to revenue. If the Council was to have material finance leases the accounting policy would be as per the following;

### **a. Finance Leases**

The Council accounts for leases as finance leases when substantially all the risks and rewards relating to the leased property transfer to the Council. Rentals payable are apportioned between:

- a charge for the acquisition of the interest in the property, plant or equipment (recognised as a liability in the Balance Sheet at the start of the lease, matched with a tangible fixed asset – the liability is written down as the rent becomes payable), and
- A finance charge (debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

Property, Plant and Equipment recognised under finance leases would be accounted for using the policies applied generally to such assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life (where ownership of the asset does not transfer to the authority at the end of the lease period).

### **b. Operating Leases**

Leases that do not meet the definition of finance leases as described above are accounted for as operating leases. Rentals payable are charged to the relevant service revenue account within the Comprehensive Income and Expenditure Statement on an equalised basis over the term of the lease, to reflect the economic benefits consumed over the life of the lease, irrespective of fluctuations in annual payments.

### **c. The Authority as a Lessor**

The council has not identified any finance leases as a lessor; however the finance lease accounting policy would be as follows:

#### **Finance Leases**

Where the Authority grants a finance lease over a property or an item of plant or equipment, the relevant asset is written out of the Balance Sheet as a disposal. At the commencement of the lease, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. A gain, representing the Authority's net investment in the lease, is credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal) matched by a lease (long-term debtor) asset in the Balance Sheet.

Lease rentals receivable are apportioned between:

- a charge for the acquisition of the interest in the property – applied to write down the lease debtor (together with any premiums received), and

- Finance income (credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

The gain credited to the Comprehensive Income and Expenditure Statement on disposal is not permitted by statute to increase the General Fund Balance and is required to be treated as a capital receipt. Where a premium has been received, this is posted out of the General Fund Balance to the Capital Receipts Reserve in the Movement in Reserves Statement. Where the amount due in relation to the lease asset is to be settled by the payment of rentals in future financial years, this is posted out of the General Fund Balance to the Deferred Capital Receipts Reserve in the Movement in Reserves Statement. The written-off value of disposals is not a charge against council tax, as the cost of fixed assets is fully provided for under separate arrangements for capital financing. Amounts are therefore appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

## **Operating Leases**

Where the Authority grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Credits are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a premium paid at the commencement of the lease). Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over the lease term on the same basis as rental income.

## **18. Overheads and Support Services**

The costs of overheads and support services are charged to those services that benefit from the supply or service in accordance with the costing principles of the CIPFA Best Value Accounting Code of Practice. The total absorption costing principle is used – the full cost of overheads and support services is shared between users in proportion to the benefits received, with the exception of:

- Corporate and Democratic Core – costs relating to the Council's status as a multi-functional, democratic organisation.
- Non Distributed Costs – the cost of discretionary benefits awarded to employees retiring early and any depreciation and impairment losses chargeable on non-operational properties.

These two cost categories are defined in BVACOP and accounted for as separate headings in the Comprehensive Income and Expenditure Statement, as part of Net Expenditure on Continuing Services.

## **19. Property, Plant and Equipment**

Assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and that are expected to be used during more than one financial year are classified as Property, Plant and Equipment.

### **Recognition**

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits



or service potential associated with the item will flow to the Council and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense when it is incurred. The de minimis level above which expenditure on tangible fixed assets is classified as capital is £50,000 except where the expenditure is financed by grants or contributions; or where lesser amounts on the same asset accumulate above that level.

## **Measurement**

Assets are initially measured at cost, comprising:

- the purchase price
- any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management
- The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

The Authority does not capitalise borrowing costs incurred whilst assets are under construction. The cost of assets acquired other than by purchase is deemed to be its fair value, unless the acquisition does not have commercial substance (i.e. it will not lead to a variation in the cash flows of the Authority). In the latter case, where an asset is acquired via an exchange, the cost of the acquisition is the carrying amount of the asset given up by the Authority.

Donated assets are measured initially at fair value. The difference between fair value and any consideration paid is credited to the Taxation and Non-Specific Grant Income line of the Comprehensive Income and Expenditure Statement, unless the donation has been made conditionally. Until conditions are satisfied, the gain is held in the Donated Assets Account. Where gains are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance to the Capital Adjustment Account in the Movement in Reserves Statement.

Assets are then carried in the Balance Sheet using the following measurement bases:

- infrastructure, community assets and assets under construction – depreciated historical cost.
- dwellings – fair value, determined using the basis of existing use value for social housing (EUV-SH).
- All other assets – fair value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV).

Where there is no market-based evidence of fair value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of fair value. Where non-property assets that have short useful lives or low values (or both), depreciated historical cost basis is used as a proxy for fair value – this is commonly used as a basis for valuing vehicles, plant and equipment.

Assets included in the Balance Sheet at fair value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their fair value at the year-end, but as a minimum every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the Comprehensive Income and Expenditure Statement where they arise from the reversal of a loss previously charged to a service.

Where decreases in value are identified, they are accounted for by:

- Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)

- Where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

The Revaluation Reserve contains revaluation gains recognised since 1<sup>st</sup> April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

### **Impairment**

Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

Where impairment losses are identified, they are accounted for by:

- Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)
- Where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line(s) in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

### **Depreciation**

Depreciation is provided for on all Property, Plant and Equipment assets by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life (i.e. freehold land and certain Community Assets) and assets that are not yet available for use (i.e. assets under construction).

Depreciation is calculated on the following bases:

- dwellings - equivalent to the Major Repairs Allowance payable by the Government which has been used as an appropriate proxy for depreciation
- other buildings – straight-line allocation over the useful life of the property as estimated by the valuer
- vehicles, plant, furniture and equipment – a percentage of the value of each class of assets in the Balance Sheet, as advised by a suitably qualified officer. For equipment, over five years
- infrastructure – straight-line allocation over 40 years

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

Where an item of Property, Plant and Equipment asset has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately if they have a materially different remaining life from the underlying asset.

Any assets with a value below £0.5 million are not considered material for containing separate components. Separate components will be considered in an asset with a value greater than £0.5 million if the component has a value of greater than 25% of the asset and the remaining life of the asset is materially different from the underlying asset.

### **Disposals and Non-current Assets Held for Sale**

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are

recognised only up to the amount of any previously losses recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale. If assets no longer meet the criteria to be classified as Assets Held for Sale, they are reclassified back to non-current assets and valued at the lower of their carrying amount before they were classified as held for sale; adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as Held for Sale, and their recoverable amount at the date of the decision not to sell. Assets that are to be abandoned or scrapped are not reclassified as Assets Held for Sale.

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time

of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. A proportion of receipts relating to housing disposals (75% for dwellings, 50% for land and other assets, net of statutory deductions and allowances) is payable to the Government. The balance of receipts is required to be credited to the Capital Receipts Reserve, and can then only be used for new capital investment or set aside to reduce the Authority's underlying need to borrow (the capital financing requirement). Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement.

The written-off value of disposals is not a charge against Council Tax, as the cost of fixed assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

## **20. Private Finance Initiative (PFI) and Similar Contracts**

PFI contracts are agreements to receive services, where the responsibility for making available the property, plant and equipment fixed assets needed to provide services passes to the PFI contractor. As the Authority is deemed to control the services that are provided under its PFI schemes, and as ownership of the property, plant and equipment will pass to the Authority at the end of the contracts for no additional charge, the Authority carries the assets used under the contracts on its Balance Sheet as part of Property, Plant and Equipment. The Council is party to two PFI contracts in respect of schools which terminate in 2027 and 2029.

The original recognition of these fixed assets at fair value (based on the cost to purchase the property, plant and equipment) was balanced by the recognition of a liability for amounts due to the scheme operator to pay for capital investment. Non current assets recognised on the Balance Sheet are revalued and depreciated in the same way as property, plant and equipment owned by the Authority.

The amounts payable to the PFI operators each year are analysed into five elements:

- fair value of the services received during the year – debited to the relevant service in the Comprehensive Income and Expenditure Statement
- finance cost – an interest charge on the outstanding Balance Sheet liability, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement
- contingent rent – increases in the amount to be paid for the property arising during the contract, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement
- payment towards liability – applied to write down the Balance Sheet liability towards the PFI operator (the profile of write-downs is calculated using the same principles as for a finance lease).
- lifecycle replacement costs – recognised as fixed assets on the Balance Sheet if capital in nature

**MRP policy for PFI schemes** - a minimum revenue provision is charged based on a share of the charge paid within the contract - this represents repayment of the contract liability for the fixed assets within the contract.

There is also a contract for the Barkantine Heat and Power scheme. This concession agreement is a user pay arrangement where the end user pays the operator for the combined heat and power (CHP) services rendered. The Council receives a profit share but pays no unitary charge for the service. The assets of the CHP scheme are included on the council's balance sheet with a deferred income balance (from 2010/11), both of which are written down in over the term of the contract.

## **21. Provisions, Contingent Liabilities and Contingent Assets**

### **a. Provisions**

Provisions are made where an event has taken place that gives the Council an obligation that probably requires settlement by a transfer of economic benefits or service potential and a reliable estimate can be made of the amount of the obligation. For instance, if the Council were to be involved in a court case that could eventually result in the making of a settlement or the payment of compensation.

Provisions are charged to the appropriate service revenue account in the year that the Council becomes aware of the obligation, based on the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties. When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year. Where it becomes more likely than not that a transfer of economic benefits will not be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service account.

Where some or all of the payment required to settle an obligation is expected to be met by another party (e.g. from an insurance claim), this is only recognised as income in the relevant revenue account if it is virtually certain that reimbursement will be received if the Council settles the obligation.

### **b. Contingent Liabilities**

A contingent liability arises where an event has taken place that gives the Council a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the authority. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

Contingent liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts.

### **c. Contingent Assets**

A contingent asset arises where an event has taken place that gives the authority a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the authority.

Contingent assets are not recognised in the Balance Sheet but disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential.

## **22. Reserves**

The Council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts out of the General Fund Balance in the Movement of Reserves Statement. When expenditure to be financed from a reserve is incurred it is charged to the relevant service revenue account in that year to score against the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund Balance statement so that there is no net charge against Council Tax for the expenditure.

Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments, retirement and employment benefits and do not represent usable resources for the Council – these reserves are explained in the relevant policies.

## **23. Revenue Expenditure Funded from Capital under Statute (REFCUS)**

Expenditure incurred during the year that may be capitalised under statutory provisions but does not result in the creation of non-current assets has been charged as expenditure to the relevant service revenue account in the year. Where the Council has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the Movement of Reserves Statement from the General Fund Balance to the Capital Adjustment Account then reverses out the amounts charged so there is no impact on the level of Council Tax.

## **24. VAT**

VAT payable is included as an expense only to the extent that it is not recoverable from Her Majesty's Revenue and Customs. VAT receivable is excluded from income.

## **25. Collection Fund**

The Council is required by statute to maintain a separate fund for the collection and distribution of amounts due in respect of Council Tax and National Non-Domestic Rates (NNDR). This account receives income on behalf of the Council and its other preceptor, the Greater London Authority (GLA).

Council Tax income for the year is the Council's accrued income for the year and not the amount required to be transferred from the Collection Fund under regulation. The difference between the amount included in the Comprehensive Income and Expenditure Statement and the amount required by regulation to be credited to the General Fund is taken to the Collection Fund Adjustment Account and included within the Movement of Reserves Statement.

The cash collected by the Council from Council Tax debtors belongs proportionately to the billing authority and the preceptor. This results in a debtor / creditor position between the Council and preceptor for the difference between the cash collected from Council Tax debtors and the precept paid over during the year. The Balance Sheet includes the Council's share of Council Tax arrears and impairment for bad debts, Council Tax over payments and prepayments and the debtor/ creditor from the preceptor.

The Council's share of net cash collected from Council Tax debtors in the year is included within the Cash Flow Statement. The difference between the major preceptors' share of net cash collected and amounts paid to the precepting authorities is included in the net cash-flows for financing activities.

The amount included in the Council's Balance Sheet is the amount of cash collected from NNDR taxpayers (less the amount retained in respect of a cost of collection allowance) that has not yet been paid to the Government or has been overpaid to the Government on the Balance Sheet date.

## **NOTE 2. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES**

In applying the accounting policies set out in note 1, the Authority has had to make certain judgments about complex transactions or those involving uncertainty about future events. The critical judgements made in the Statement of Accounts are:

- The Council is accounted for on a going concern basis, the medium term financial plan has made allowances for estimated future levels of government funding.
- Property is regularly reviewed to identify possible impairment.
- The council has reviewed contracts to identify potential embedded service concessions or embedded leases.
- The Council's pension fund investment strategy and funding level is closely monitored to minimise risk of future events.

### 3 TRANSITION TO IFRS

The introduction of IFRS has required the restatement of previous year's comparative figures within the Statement of Accounts. The impact of restatement is shown in this section.

#### Short-term accumulating compensated absences

Short-term accumulating compensated absences refers to benefits that employees receive as part of their contract of employment, entitlement to which is built up as they provide services to the Authority. The most significant benefit covered by this heading is holiday pay.

Employees build up an entitlement to paid holidays as they work. Under the code, the cost of providing holidays and similar benefits is required to be recognised when employees render service that increases their entitlement to future compensated absences. As a result, the authority is required to accrue for any annual leave earned but not taken at 31 March each year. Under the previous accounting arrangements, no such accrual was required.

The Government has issued regulations that mean local authorities are only required to fund holiday pay and similar benefits when they are used, rather than when employees earn the benefits. Amounts are transferred to the Accumulated Absences Account until the benefits are used.

Accruing for short-term accumulating compensated absences has resulted in the following changes being made to the 2009/10 financial statements:

Opening 1 April 2009 Balance Sheet			
	2008/09 Statements £'000	Adjustments Made £'000	IFRS 2008/09 Statements £'000
Provision for accumulated absences	0	3,762	3,762
Accumulated absences account	0	(3,762)	(3,762)

31 March 2010 Balance Sheet			
	2009/10 Statements £'000	Adjustments Made £'000	IFRS 2009/10 Statements £'000
Provision for accumulated absences	0	4,207	4,207
Accumulated absences account	0	(4,207)	(4,207)

#### Government Grants and Investment & Surplus Properties

Under the Code, grants and contributions for capital schemes are recognised as income when they become receivable. Previously, grants were held in a grants deferred account and recognised as income over the life of the assets which they were used to fund.

As a consequence of adopting the accounting policy required by the Code, the financial statements have been amended as follows:

The balance on the Government Grants Deferred Account at 31 March 2009 has been transferred to the capital Adjustment Account in the opening 1 April 2009 balance sheet.

Portions of government grants deferred were previously recognised as income in 2009/10; these have been removed from the Comprehensive Income and Expenditure statement in the comparative figures - details are within the Comprehensive Income and Expenditure restatement note on the following page. Unused government grants where there are no repayment conditions have been transferred from short-term creditors to reserves.

Assets previously classed as investment properties are now classed as property, plant and equipment as they are held to provide services to the community and are not held solely for capital gain or income purposes. Surplus assets have been reclassified as surplus assets not held for sale as they are not being actively marketed for sale in the short-term.

This has resulted in the following changes being made to the 2009/10 financial statements:

<b>Opening 1 April 2009 Balance Sheet</b>			
	<b>1 Apr 2009 Balance Sheet £'000</b>	<b>Adjustments Made £'000</b>	<b>IFRS 1 Apr 2009 Balance Sheet Statements £'000</b>
<b>Non-Current Assets</b>			
Other land & buildings	968,157	50,844	1,019,001
Investment properties	50,042	(50,042)	-
Surplus assets (non-operational)	802	(802)	-
<b>Current Liabilities</b>			
Short-term creditors	132,166	(43,054)	89,112
<b>Long-Term Liabilities</b>			
Capital Grants Receipts in Advance	-	52,819	52,819
Capital Grants Unapplied	37,363	(37,363)	-
Capital Grants and Contributions Deferred	96,139	(96,139)	-
<b>Reserves</b>			
Earmarked Reserves	101,865	(7,368)	94,497
School Reserves*		20,536	20,536
Capital Grants Unapplied	-	14,429	14,429
Government Grants Deferred Account			-
Revaluation Reserve			-
Capital Adjustment Account	994,431	96,139	1,090,570



## Government Grants & Investment Properties (continued)

### 31 March 2010 Balance Sheet

	2009/10 Statements £'000	Adjustments Made £'000	IFRS 2009/10 Statements £'000
<b>Non-Current Assets</b>			
Other land & buildings	987,918	52,412	1,040,330
Investment properties	52,769	(52,769)	0
Surplus assets not held for sale	0	4,270	4,270
Surplus assets (non-operational)	5,072	(5,072)	0
<b>Current Liabilities</b>			
Short-term creditors	129,702	(33,183)	96,519
<b>Long-Term Liabilities</b>			
Capital Grants Receipts in Advance	0	50,030	50,030
Capital Grants Unapplied	38,511	(38,511)	0
Capital Grants and Contributions Deferred	130,864	(130,864)	0
<b>Reserves</b>			
Earmarked Reserves	98,889	(13,947)	84,942
School Reserves*	0	19,111	19,111
Capital Grants Unapplied	0	16,500	16,500
Government Grants Deferred Account	0	0	0
Revaluation Reserve	510,138	(241)	509,897
Capital Adjustment Account	975,634	129,946	1,105,580

\*Note - IFRS guidance shows school reserves on a separate line on the balance sheet from earmarked reserves.

### Cash & Cash Equivalents

Under IFRS regulations, cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice. Cash equivalents are investments that mature no more than three months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value

The council has reclassified some short-term investments and cash and bank as cash and cash equivalents as follows:

### Opening 1 April 2009 Balance Sheet

	1 Apr 2009 Balance Sheet £'000	Adjustments Made £'000	IFRS 1 Apr 2009 Balance Sheet Statements £'000
<b>Current Assets</b>			
Short-term investments	78,427	(64,160)	14,267
Cash & cash equivalents	0	91,612	91,612
Cash & bank	27,452	(27,452)	0

### 31 March 2010 Balance Sheet

	2009/10 Statements £'000	Adjustments Made £'000	IFRS 2009/10 Statements £'000
<b>Current Assets</b>			
Short-term investments	85,508	(44,690)	40,818
Cash & cash equivalents	0	81,700	81,700
Cash & bank	37,010	(37,010)	0

## Restated Comprehensive Income & Expenditure Account

The Comprehensive Income and Expenditure Account has been restated for accumulated absences, grant treatment and depreciation on investment properties. The restatements are as follows:

### 2009/10 Comprehensive Income and Expenditure Statement

#### Continuing Operations

#### Cost of Services (Net):

	2009/10 Statements	Accumulated Absences Adjustments Made	Grant Adjustments Made	Impairment	Depreciation - Investment Properties	IFRS 2009/10 Statements
	£'000	£'000	£'000	£'000	£'000	£'000
<b>Cultural, Environmental, Regulatory and Planning Services</b>						
Gross expenditure	140,874	82	0		104	141,060
Gross income	(45,162)	(85)	4,847			(40,400)
Net expenditure	95,712	(3)	4,847		104	100,660
<b>Children's and Education Services</b>						
Gross expenditure	504,349	3,981				508,330
Gross income	(423,206)	(3,533)	18,666			(408,073)
Net expenditure	81,143	448	18,666		0	100,257
<b>Central Service</b>						
Gross expenditure	85,969	1				85,970
Gross income	(75,835)	(3)				(75,838)
Net expenditure	10,134	(2)	0		0	10,132
<b>Highways and Transport Services</b>						
Gross expenditure	26,958	37				26,995
Gross income	(23,131)	(37)	1,724			(21,444)
Net expenditure	3,827	0	1,724		0	5,551
<b>Local Area Housing (Housing Revenue Account)</b>						
Gross expenditure	96,217			0	1,055	97,272
Gross income	(90,760)		6,995	(17,560)		(101,325)
Net expenditure	5,457	0	6,995		1,055	(4,053)
<b>Other Housing Services</b>						
Gross expenditure	284,933	13				284,946
Gross income	(275,394)	(13)	1,069			(274,338)
Net expenditure	9,539	0	1,069		0	10,608
<b>Adult Social Care</b>						
Gross expenditure	112,547	68				112,615
Gross income	(20,292)	(69)	4,112			(16,249)
Net expenditure	92,255	(1)	4,112		0	96,366
<b>Corporate and Democratic Core</b>						
Gross expenditure	10,450	22				10,472
Gross income	(6,284)	(22)	1,537			(4,769)
Net expenditure	4,166	0	1,537		0	5,703
<b>Non Distributed Costs</b>						
Gross expenditure	17,825					17,825
Gross income	(26)		25			(1)
Net expenditure	17,799	0	25		0	17,824
<b>Net Cost of Services Sub-Total</b>						
Gross expenditure	1,280,122	4,204	0		1,159	1,285,485
Gross income	(960,090)	(3,762)	38,975		0	(924,877)
Net expenditure	320,032	442	38,975	(17,560)	1,159	343,048
<b>Surplus or Deficit of Trading Operations</b>						
Gross expenditure	11	3	0	0	0	14
Gross income	0	0	0	0	0	0
Net expenditure	11	3	0	0	0	14
<b>Net (gain)/loss on disposal of non-current assets</b>						
Expenditure	20,728		0	17,560	4,781	43,069
<b>Capital Grants and Contributions</b>						
Income	0		(72,549)		0	(72,549)
<b>(Surplus) or Deficit on the Provision of Services</b>						
Expenditure	47,225	442	(33,574)	0	5,940	20,033
<b>Total Comprehensive Income and Expenditure</b>						
Expenditure	426,190	442	(33,574)	0	5,940	398,998

## 4a Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty

The Statement of Accounts contains estimated figures that are based on assumptions made by the Authority about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

The items in the Council's Balance Sheet at 31st March 2011 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

**Property, Plant and Equipment** - Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. The current economic climate makes it uncertain that the Authority will be able to sustain its current spending on repairs and maintenance, bringing into doubt the useful lives assigned to assets.

If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets falls. It is estimated that the annual depreciation charge for buildings would increase by approximately £1 million for every year that useful lives had to be reduced

**Pensions Liability** - Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Authority with expert advice about the assumptions to be applied.

The assumptions interact in complex ways. During 2010/11, the Authority's actuaries advised that the net pensions liability had decreased by £381 million, partly as a result of future estimates of pension increases being reduced and favourable investment returns compared to the previous year.

## 4b Material Items of Income and Expense

Due to a change in valuation guidance, £283m of revaluation loss has been charged to the Comprehensive Income and Expenditure Account. However this is not a real charge to the General Fund in accordance with statute and as such is reversed out the Capital Adjustment Account. Further details are in Note 3 to the Housing Revenue Account.

Projected pension liabilities have reduced following the Government's announcement that the Consumer Price Index rather than the Retail Price Index will be used as the basis for future increases to public sector pensions in payment and deferment. The gain to the pension scheme is estimated at £134 million and shown within Financing and Investment Income and Expenditure within the Comprehensive Income & Expenditure Account. More details are in note 43 to the Accounts.

## 5 Post Balance Sheet Events

No post balance sheet events have yet been identified that require the accounts to be restated.

## 6 ADJUSTMENTS BETWEEN ACCOUNTING BASIS AND FUNDING BASIS UNDER REGULATIONS

2010/11	USABLE RESERVES								UNUSABLE RESERVES							
	GENERAL FUND BALANCE £'000	earmarked GENERAL FUND RESERVES £'000	HOUSING REVENUE ACCOUNT BALANCE £'000	MAJOR REPAIRS RESERVE £'000	CAPITAL RECEIPTS RESERVE £'000	DEFERRED CAPITAL RECEIPTS £'000	CAPITAL GRANTS UNAPPLIED £'000	TOTAL USABLE RESERVES £'000	REVALUATION RESERVE £'000	CAPITAL ADJUSTMENT ACCOUNT £'000	PENSIONS RESERVE £'000	COLLECTION FUND ADJUSTMENT ACCOUNT £'000	FINANCIAL INSTRUMENT ADJUSTMENT ACCOUNT £'000	ACCUMULATED ABSENCES ACCOUNT £'000	TOTAL UNUSABLE RESERVES £'000	TOTAL AUTHORITY RESERVES £'000
<b>Adjustments involving the Capital Adjustment Account</b>																
<u>Reversal of items debited or credited to the Comprehensive I&amp;E</u>																
Charges for depreciation and impairment of non current assets	23,829	0	1,477	12,913	0	0	0	38,219	0	(38,219)	0	0	0	0	(38,219)	0
Revaluation losses on PPE (charged to SDPS)	1,210	0	293,654	0	0	0	0	294,864	0	(294,863)	0	0	0	0	(294,863)	1
Movements on the market value of investment assets	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Amortisation of intangible assets	836	0	0	0	0	0	0	836	0	(836)	0	0	0	0	(836)	0
Capital grants and contributions applied	(74,541)	0	(5,989)	0	0	0	(21,918)	(102,448)	0	102,448	0	0	0	0	102,448	0
Movement in the donated assets account	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Revenue expenditure funded from capital under statute	24,646	0	7,676	0	0	0	0	32,322	0	(32,322)	0	0	0	0	(32,322)	0
Amounts of non current assets written off on disposal or sale as part of the gain/loss on disposal to the CIES	12,053	0	18,257	0	0	0	0	30,310	0	(30,311)	0	0	0	0	(30,311)	(1)
<u>Inclusion of items not debited or credited to the Comprehensive Income &amp; Expenditure Statement</u>																
Statutory provision for the financing of capital investment	(7,373)	0	0	0	0	0	0	(7,373)	0	7,373	0	0	0	0	7,373	0
Capital expenditure charged against the General Fund and HRA balances	(6,851)	0	(335)	0	0	0	0	(7,186)	0	7,186	0	0	0	0	7,186	0
<b>Adjustments involving the Capital Receipts Reserve</b>																
Transfer of sale proceeds credited as part of the gain/loss on disposal to the CIES	(3,343)	0	(10,140)	0	13,483	0	0	0	0	0	0	0	0	0	0	0
Use of the Capital Receipts Reserve to finance new capital expenditure	0	0	0	0	(5,792)	0	0	(5,792)	0	5,792	0	0	0	0	5,792	0
Contribution from the Capital Receipts Reserve towards administrative costs of non current asset disposals	11	0	92	0	(103)	0	0	0	0	0	0	0	0	0	0	0
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Unattached capital receipts	(214)	0	(236)	0	450	0	0	0	0	0	0	0	0	0	0	0
Deferred Capital Receipts	0	0	(19)	0	76	(57)	0	0	0	0	0	0	0	0	0	0
<b>Adjustment involving the Major Repairs Reserve</b>																
Reversal of Major Repairs Allowance credited to the HRA	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Use of the Major Repairs Reserve to finance new capital expenditure	0	0	0	(7,641)	0	0	0	(7,641)	0	7,641	0	0	0	0	7,641	0
<b>Adjustments involving the Financial Instruments Adjustment Account</b>																
Amount by which finance costs charged to the CIES are different from finance costs chargeable in the year in accordance with statutory requirements	101	0	(222)	0	0	0	0	(121)	0	0	0	0	121	0	121	0
<b>Adjustment involving the Pensions Reserve</b>																
Reversal of items relating to retirement benefits debited or credited to the CIES	(78,795)	0	(6,416)	0	0	0	0	(85,211)	0	0	85,211	0	0	0	85,211	0
Employer's pensions contributions and direct payments to pensioners payable in the year	(34,021)	0	(2,038)	0	0	0	0	(36,059)	0	0	36,059	0	0	0	36,059	0
<b>Adjustments involving the Collection Fund Adjustment Account</b>																
Amount by which council tax credited to the CIES is different from council tax income calculated in accordance with statutory requirements	748	0	0	0	0	0	0	748	0	0	0	(748)	0	0	(748)	0
<b>Adjustments involving the Unequal Pay Back Pay Adjustment Account</b>																
Amount by which amounts charged for Equal Pay claims to the CIES are different from the cost of settlements chargeable in the year in accordance with statutory requirements	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
<u>Other adjustments include</u>																
<b>Adjustments involving the Capital Grants Unapplied Account</b>																
Capital grants and contributions unapplied credited to CIES	(20,269)	0	(4,900)	0	0	0	25,169	0	0	0	0	0	0	0	0	0
Application of grants to capital financing transferred to the Capital Adjustment Account	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
<b>Adjustment between the Capital Adjustment Account and the Revaluation Reserve</b>																
Depreciation of non-current asset revaluation gains	0	0	0	0	0	0	0	0	(8,856)	8,856	0	0	0	0	0	0
Adjustments between accounting basis & funding basis under regulations	0	0	0	0	0	0	0	0	(4,080)	4,081	0	0	0	0	1	1
<b>Transfers from General Fund (as directed by Secretary of State)</b>																
<b>Adjustments involving the Accumulated Absences Account</b>																
Amount by which officer remuneration charged to the CIES on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(406)	0	406	0	0	0	0	0	0	0	0	0	0	0	0	0
<b>Adjustments involving the Accumulated Absences Account</b>																
Amount by which officer remuneration charged to the CIES on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	211	0	0	0	0	0	0	211	0	0	0	0	0	(211)	(211)	0
<b>Total Adjustments</b>	<b>(162,168)</b>	<b>0</b>	<b>291,267</b>	<b>5,272</b>	<b>8,114</b>	<b>(57)</b>	<b>3,251</b>	<b>145,679</b>	<b>(12,936)</b>	<b>(253,174)</b>	<b>121,270</b>	<b>(748)</b>	<b>121</b>	<b>(211)</b>	<b>(145,678)</b>	<b>1</b>

2009/10 Comparative Figures	USABLE RESERVES								UNUSABLE RESERVES							
	GENERAL FUND BALANCE £'000	earmarked general fund reserves* £'000	HOUSING REVENUE ACCOUNT BALANCE £'000	MAJOR REPAIRS RESERVE £'000	CAPITAL RECEIPTS RESERVE £'000	DEFERRED CAPITAL RECEIPTS £'000	CAPITAL GRANTS UNAPPLIED £'000	TOTAL USABLE RESERVES £'000	REVALUATION RESERVE £'000	CAPITAL ADJUSTMENT ACCOUNT £'000	PENSIONS RESERVE £'000	COLLECTION FUND ADJUSTMENT ACCOUNT £'000	FINANCIAL INSTRUMENT ADJUSTMENT ACCOUNT £'000	ACCUMULATED ABSENCES ACCOUNT £'000	TOTAL UNUSABLE RESERVES £'000	TOTAL AUTHORITY RESERVES £'000
<b>Adjustments involving the Capital Adjustment Account</b>																
<u>Reversal of items debited or credited to the Comprehensive I&amp;E</u>																
Charges for depreciation and impairment of non current assets	17,307		1,390	12,556				31,253		(31,253)					(31,253)	0
Revaluation losses on PPE (charged to SDPS)	29,442		631					30,073		(30,073)					(30,073)	0
Movements on the market value of investment assets								0							0	0
Amortisation of intangible assets	1,374							1,374		(1,374)					(1,374)	0
Capital grants and contributions applied								0							0	0
Movement in the donated assets account								0							0	0
Revenue expenditure funded from capital under statute	8,642		6,403					15,045		(15,045)					(15,045)	0
Amounts of non current assets written off on disposal or sale as part of the gain/loss on disposal to the CIES	23,130		19,939		1,330			44,399	(8,059)	(36,340)					(44,399)	0
<u>Inclusion of items not debited or credited to the Comprehensive Income &amp; Expenditure Statement</u>																
Statutory provision for the financing of capital investment	(7,260)							(7,260)		7,260					7,260	0
Capital expenditure charged against the General Fund and HRA balances	(8,437)		(6,000)					(14,437)		14,437					14,437	0
<b>Adjustments involving the Capital Receipts Reserve</b>																
Transfer of sale proceeds credited as part of the gain/loss on disposal to the CIES	0				0			0		0					0	0
Use of the Capital Receipts Reserve to finance new capital expenditure					(11,387)			(11,387)		11,387					11,387	0
Contribution from the Capital Receipts Reserve towards administrative costs of non current asset disposals								0							0	0
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool	572				(572)			0							0	0
Unattached Capital Receipts	(8,734)				8,734			0							0	0
<b>Adjustment involving the Major Repairs Reserve</b>																
Reversal of Major Repairs Allowance credited to the HRA								0							0	0
Use of the Major Repairs Reserve to finance new capital expenditure				(13,836)				(13,836)		13,836					13,836	0
<b>Adjustments involving the Financial Instruments Adjustment Account</b>																
Amount by which finance costs charged to the CIES are different from finance costs chargeable in the year in accordance with statutory	101		(585)					(484)					484		484	0
<b>Adjustment involving the Pensions Reserve</b>																
Reversal of items relating to retirement benefits debited or credited to the CIES	37,017		2,855					39,872		(39,872)					(39,872)	0
Employer's pensions contributions and direct payments to pensioners payable in the year	(32,400)		(3,717)					(36,117)		36,117					36,117	0
<b>Adjustments involving the Collection Fund Adjustment Account</b>																
Amount by which council tax credited to the CIES is different from council tax income calculated in accordance with statutory requirements	(4,499)							(4,499)				4,499			4,499	0
<b>Adjustments involving the Unequal Pay Back Pay Adjustment Account</b>																
Amount by which amounts charged for Equal Pay claims to the CIES are different from the cost of settlements chargeable in the year in accordance with statutory requirements								0							0	0
<b>Adjustments involving the Accumulating Compensated Absences Adjustment</b>																
Amount by which officer remuneration charged to the CIES on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements								0							0	0
<u>Other adjustments include</u>																
<b>Adjustments involving the Capital Grants Unapplied Account</b>																
Capital grants and contributions unapplied credited to CIES								0							0	0
Application of grants to capital financing transferred to the Capital Adjustment Account								0							0	0
Unconditional Grant received in 2009/10	(8,289)		(3,045)				11,334	0							0	0
Grants Where condition existed but are met	(56,129)		(11,390)					(67,519)		67,519					67,519	0
Capital Grants Applied in 2009/10							(9,264)	(9,264)		9,264					9,264	0
<b>Adjustment between the Capital Adjustment Account and the Revaluation</b>																
Depreciation of non-current asset revaluation gains								0	(5,394)	5,394					0	0
<b>Deferred Capital Receipts</b>																
	(714)		714		114	(114)										
<b>Adjustments involving the Accumulated Absences Account</b>																
Amount by which officer remuneration charged to the CIES on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	448							448						(448)	(448)	0
<b>Total Adjustments</b>	<b>(8,429)</b>	<b>0</b>	<b>7,195</b>	<b>(1,280)</b>	<b>(1,781)</b>	<b>(114)</b>	<b>2,070</b>	<b>(2,339)</b>	<b>(13,453)</b>	<b>15,012</b>	<b>(3,755)</b>	<b>4,499</b>	<b>484</b>	<b>(448)</b>	<b>2,339</b>	<b>0</b>

## 7 TRANSFERS TO/FROM EARMARKED RESERVES

This note sets out the amounts set aside from the General Fund and HRA balances in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund and HRA expenditure in 2010/11

	BALANCE AT 1 APRIL 2009	TRANSFERS OUT 2009/10	TRANSFERS IN 2009/10	BALANCE AT 31 MARCH 2010	TRANSFERS OUT 2010/11	TRANSFERS IN 2010/11	BALANCE AT 31 MARCH 2011
<b>GENERAL FUND</b>							
CS1 Balances held by schools under a scheme of delegation	20,536	(1,425)	0	19,111	0	4,259	23,370
<b>Total Schools Balance</b>	<b>20,536</b>	<b>(1,425)</b>	<b>0</b>	<b>19,111</b>	<b>0</b>	<b>4,259</b>	<b>23,370</b>
<b>Corporate</b>							
CO1 Insurance Reserve	26,096	(1,362)	0	24,734	(1,964)	2,052	24,822
CO2 Area Based Grant Reserve	5,744	(2,020)	0	3,724	(2,068)	0	1,656
CO3 Decent Homes	23,662	(4,003)	0	19,659	(4,911)	0	14,748
CO4 Final accounts review	2,724	0	0	2,724	0	0	2,724
CO5 Performance related grant	2,348	(896)	0	1,452	(700)	1,074	1,826
CO6 Olympic legacy	2,110	(610)	0	1,500	(380)	0	1,120
CO7 Personal computers refresh	1,355	0	62	1,417	(62)	0	1,355
CO8 Single status	1,205	0	0	1,205	(998)	0	207
CO9 Town centres improvements	725	0	0	725	(92)	0	633
CO10 Efficiency reserve	689	0	1,196	1,885	(533)	0	1,352
CO11 Invest to Save	0	0	0	0	0	1,181	1,181
CO12 Children's services grants management reserve	0	0	0	0	0	4,000	4,000
CO13 Decant of Anchorage House	0	0	0	0	0	4,100	4,100
CO14 Smoothing of savings reserve	0	0	0	0	0	934	934
CO15 You Decide monies	0	0	0	0	0	176	176
CO16 Affordable Homes - Capital	0	0	0	0	0	600	600
CO17 Employment Initiatives	0	0	0	0	0	1,040	1,040
CO18 Grant balances carried forward	1,264	(1,223)	0	41	0	570	611
<b>Chief Executive's</b>							
CE1 Corporate initiatives	1,791	(350)	0	1,441	(700)	0	741
CE2 Partnerships	0	0	446	446	(221)	0	225
CE3 Elections	150	0	130	280	(280)	0	0
CE4 Beacon Council Scheme	0	0	231	231	(195)	0	36
CE5 Underspends carried forward	100	0	853	953	(581)	5	377
CE6 Healthy Borough Programme Reserve				0		145	145
CE7 Grant balances carried forward	314	(314)	0	0	0	0	0
<b>Resources</b>							
RE1 Underspends carried forward	0	0	193	193	(193)	0	0
<b>Development and Renewal</b>							
DR1 Regeneration	1,738	0	0	1,738	(62)	0	1,676
DR2 Homelessness	1,851	0	600	2,451	(220)	0	2,231
DR3 Planning development	1,236	0	1,906	3,142	(756)	0	2,386
DR4 Access to employment	0	0	1,363	1,363	(97)	0	1,266
DR5 Third party loans	0	0	350	350	(200)	0	150
DR6 Land charges	0	0	71	71		125	196
DR7 Building Control	247	(247)	0	0		6	6
DR8 Community use of buildings	200	0	0	200			200
DR9 Crossrail	90	(60)	0	30	(30)	0	0
DR10 Ocean New Deal for Communities	359	0	100	459	(152)	0	307
DR11 Building Schools for the Future	0	0	0	0	0	1,345	1,345
DR12 Facilities Management	0	0	0	0	0	112	112
DR13 Potential Carbon Reduction Projects	0	0	0	0	0	116	116
DR14 Grant balances carried forward	4,799	(4,799)	17	17	0	665	682
<b>Communities Localities and Culture</b>							
CL1 Parking Control Account	957	0	871	1,828	0	610	2,438
CL2 Tower Hamlets Mela	288	(155)	0	133	0	0	133
CL3 Food waste recycling programme	220	(220)	0	0	0	0	0
CL4 Civil Contingencies	150	(117)	0	33	(19)	0	14
CL5 Blackwall depot	50	0	0	50	(50)	0	0
CL6 Grant balances carried forward	141	(135)	318	324	(158)	139	305
<b>Children Schools and Families</b>							
CS2 Unapplied rate rebates	1,970	(1,178)	0	792	(284)	0	508
CS3 Grant balances carried forward	5,305	(3,343)	2,995	4,957	(3,109)	3,865	5,713
<b>Adults Health and Wellbeing</b>							
AH1 Health, Mental Health and Stroke services	0	0	1,023	1,023	(958)	0	65
AH2 Underspends carried forward	0	0	301	301	(301)	0	0
AH3 Framework I	500	0	0	500	(210)	0	290
AH4 Transforming Social Care	0	0	1,477	1,477	(1,477)	0	0
AH5 Supporting People	0	0	959	959		0	959
AH6 Grant balances carried forward	3,907	(3,771)	0	136	(22)	165	279
<b>TOTAL Earmarked Reserves</b>	<b>94,498</b>	<b>(25,016)</b>	<b>15,462</b>	<b>84,944</b>	<b>(21,983)</b>	<b>23,025</b>	<b>85,986</b>
<b>HRA</b>							
Housing Revenue Account	23,301	(10,323)	0	12,978	(192)		12,786
<b>TOTAL</b>	<b>23,301</b>	<b>(10,323)</b>	<b>0</b>	<b>12,978</b>	<b>(192)</b>	<b>0</b>	<b>12,786</b>

**Corporate Reserves**

- CO1 The Council is self insured for most liability and property risks. The level of the reserve is reviewed annually and where appropriate an amount transferred to the Insurance Provision. During the year £1.964 million of the reserve was transferred to the insurance provision to provide for outstanding claims. A contribution of £2.05 million was made to the reserve during the year.
- CO2 A reserve created in 2008/09 to earmark and carry forward unused Area Based Grant into the following year. During the year £2,068,000 of the reserve was used to finance expenditure on Accelerated Delivery schemes and drug outreach workers within the budget strategy.
- CO3 £6.6 million of this reserve is to fund capital schemes. The balance of £8.15 million is earmarked for potential future costs associated with the outsourcing of the Council's housing repairs and improvements service.
- CO4 Held to meet any liabilities identified following a review of the Council's final accounts and balance sheet.
- CO5 This reserve represents grant received which will be used to deliver improved outcomes in accordance with the Local Area Agreement.
- CO6 For the purpose of making a grant available, should it be necessary, to the developers of the Olympic Aquatics Centre plus funding other Olympic projects.
- CO7 A reserve established to meet the future cost of replacing personal computers.
- CO8 A reserve established to meet potential costs resulting from a reduction in the basic week for former manual employees, and other potential claims.
- CO9 A reserve previously established from LABGI resources, earmarked for the future improvement of town centres.
- CO10 A reserve to meet the cost of efficiency initiatives.
- CO11 Reserve to fund invest to save projects, £1.7 million applied towards transformation invest to save projects in 2010/11.
- CO12 Reserve to cover redundancy costs of as a result of reduced Dedicated Schools Grant.
- CO13 Smarter working reserve to cover the cost of vacating Anchorage House during 2011/12.
- CO14 Reserve created to fund savings programmes over the medium term.
- CO15 Reserve created to carry forward "You Decide" monies for earmarked schemes.
- CO16 Corporate grant balances carried forward

**Chief Executive's Reserves**

- CE1 This reserve was established to provide time-limited resources to fund corporate improvement and development initiatives.
- CE2 A reserve established to carry forward unspent budget provision on partnership workstreams.
- CE3 This reserve was applied to cover the cost of elections held during 2010.
- CE4 A reserve established from grant monies and earmarked to progress future Beacon Council initiatives.
- CE5 A reserve established to carry forward unspent Chief Executive's budget provision.
- CE6 Healthy Borough Programme Reserve to carry forward unspent NHS contributions

**Resources Reserves**

- RE1 A reserve established to carry forward unspent Resources Directorate budget provision to 2009/10, this reserve was used in 2010/11.

**Development & Renewal Reserves**

- DR1 A reserve established from grant monies and earmarked to progress future regeneration initiatives.
- DR2 A reserve to meet the cost of future homelessness initiatives.
- DR3 A reserve established from grant monies and earmarked to finance future planning function initiatives including the digitisation of records, the Local Development Framework and Customer Contact Centre expenditure.
- DR4 A reserve amalgamating existing Government Grants for Access to Employment initiatives.
- DR5 A reserve to meet the cost of any default in respect of third party loans.
- DR6 A reserve to which is transferred the surplus generated by land charges. The reserve will be taken into account when setting future years' fee structures for the service.
- DR7 Under Government regulations chargeable building control activities should break even over a 3 year period. The reserve represents a small surplus during 2010/11.

## **7 EARMARKED RESERVES (continued)**

DR8 A reserve to fund future strategies in respect of the community use of buildings.

DR9 A reserve used to fund Council costs arising from the Crossrail project.

DR10 This reserve combined existing New Deal for Communities (NDC) reserves and is earmarked towards the Ocean NDC regeneration programme and support for the Ocean regeneration trust. £100,000 was added to the reserve during the year in respect of the resident wardens project.

DR11 Reserve to fund management costs for the building schools for the future contract

DR12 Reserve created to fund new chargeable copying and printing system in 2011/12.

DR13 Reserve created to fund carbon reduction projects such as electricity optimising systems in council buildings.

DR14 Unapplied balance of revenue grants

### **Communities, Localities & Culture Reserves**

CL1 This reserve has been created and increased using part of the Parking Control account surplus for the year. It will be used for future operational activities.

CL2 A reserve to fund the Council's management and organisation of future Melas.

CL3 A reserve to fund a food waste recycling project.

CL4 A reserve to fund business continuity options.

CL5 A reserve used to fund security works at Blackwall depot in 2010/11.

CL6 Unapplied balance of revenue grants

### **Children, Schools & Families Reserves**

CS1 This reserve represents unapplied revenue balances held by the Council on behalf of schools with delegated spending authority. The balance is committed to be spent on the education service.

CS2 Resources generated by reviews of the rateable values of Children's Services properties, earmarked for future improvements to Children's Services building stock.

CS3 Unapplied balance of capital and revenue grants. The majority of this balance is school standard fund monies.

### **Adults, Health & Wellbeing Reserves**

AH1 A reserve which amalgamating existing Government Grants for use by the services specified.

AH2 A reserve applied to fund Directorate spend in 2010/11 towards older people services.

AH3 This reserve is to enable the implementation of a client database using "Framework I" software.

AH4 A reserve established from grant monies and earmarked to progress future Transforming Social Care initiatives.

AH5 A reserve established from grant monies and earmarked to progress future Supporting People initiatives.

AH6 Unapplied balance of revenue grants, the majority of this balance was applied in 2010/11.



## 8 Other Operating Expenditure

2009/10 £'000	2010/11 £'000
<b>Levies</b>	
247 - Lee Valley Regional Park Authority	257
161 - Environment Agency	168
1,228 - London Pensions Fund Authority	1,297
<b>1,636 Total Levies</b>	<b>1,722</b>
572 Payments to Housing Capital Receipts Pool	0
43,069 Net (gain)/loss on disposal of non-current assets	16,930
(8,734) Unattached capital receipts	(450)
<b>36,543 Total</b>	<b>18,202</b>

## 9 Financing and Investment Income and Expenditure

2009/10 £'000	2010/11 £'000
27,379 Interest payable and similar charges	28,404
23,143 Pensions interest cost and expected return on pensions assets*	(114,119)
(1,313) Interest receivable and similar income Note 14	(1,631)
<b>49,209 Total</b>	<b>(87,346)</b>

\* A gain in the IAS19 pension fund net asset value of £134 million as a result of basing future pension inflation increases on the Consumer Price Index is shown within expected return on pension assets.

## 10 Taxation and Non Specific Grant Income

2009/10 £'000	2010/11 £'000
(73,608) Council Tax income	(77,417)
(185,907) Non domestic rates	(202,761)
(76,714) Non-ringfenced Government grants	(71,496)
(72,549) Capital grants and contributions <a href="#">Note 35</a>	(84,024)
<b>(408,778) Total</b>	<b>(435,698)</b>

## 11 PROPERTY, PLANT AND EQUIPMENT

MOVEMENTS IN 2010/11	COUNCIL DWELLINGS <sup>2</sup>	OTHER LAND AND BUILDINGS	VEHICLES, PLANT, FURNITURE & EQUIPMENT	INFRASTRUCTURE ASSETS	COMMUNITY ASSETS	SURPLUS ASSETS	ASSETS UNDER CONSTRUCTION	TOTAL PROPERTY, PLANT AND EQUIPMENT	PFI ASSETS INCLUDED IN PROPERTY, PLANT AND EQUIPMENT
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>Cost or Valuation</b>									
At 1 April 2010	1,071,840	1,112,540	14,147	117,188	48,410	4,270	0	2,368,395	282,267
Additions	29,714	72,277	2,506	8,876	1,612	0	616	115,601	7,822
Revaluation increases/(decreases) recognised in the Revaluation Reserve	(12,586)	29,897	0	0	0	500	0	17,811	(64)
Revaluation Increases/(decreases) recognised in the Surplus/Deficit on the provision of services	(283,172)	(11,690)	0	0	0	0	0	(294,862)	0
Derecognition - Disposals	(16,805)	(2,745)	0	0	0	(2,356)	0	(21,906)	0
Derecognition - Other	0	(8,639)	(134)	0	(420)	0	0	(9,193)	0
Assets Reclassified (to)/from Held for Sale	0	0	0	0	0	0	0	0	0
Other Reclassification of Assets	330	(9,580)	0	0	0	9,250	0	0	0
Other Movements in Cost or Valuation <sup>1</sup>	0	579	4,398	0	0	0	0	4,977	4,977
<b>At 31 March 2011</b>	<b>789,321</b>	<b>1,182,639</b>	<b>20,917</b>	<b>126,064</b>	<b>49,602</b>	<b>11,664</b>	<b>616</b>	<b>2,180,823</b>	<b>295,002</b>

### Accumulated Depreciation and Impairment

At 1 April 2010	151,056	72,210	9,691	26,018	0	0	0	258,975	11,346
Depreciation charge	12,913	20,743	1,717	2,960	0	83	0	38,416	5,847
Depreciation written out to the Revaluation Reserve	(12,587)	(1,364)	0	0	0	0	0	(13,951)	(214)
Derecognition - Disposals	0	(198)	0	0	0	(141)	0	(339)	0
Derecognition - Other	0	(329)	(118)	0	0	0	0	(447)	0
Reclassification of Assets	30	(543)	0	0	0	513	0	0	0
Other movements in Depreciation and Impairment <sup>1</sup>	0	214	1,402	0	0	0	0	1,616	1,616
<b>At 31 March 2011</b>	<b>151,412</b>	<b>90,733</b>	<b>12,692</b>	<b>28,978</b>	<b>0</b>	<b>455</b>	<b>0</b>	<b>284,270</b>	<b>18,595</b>

<sup>1</sup> PFI assets for Barkantine scheme brought on to balance sheet in 2010/11. See Note 39 for further details.

<sup>2</sup> The revaluation loss on dwellings is due to a change in the social housing adjustment factor in 2010/11 which has reduced from 37% to 25% of vacant possession value of dwellings, as per guidance issued by central government.

### Net Book Value

<b>At 31 March 2011</b>	<b>637,909</b>	<b>1,091,906</b>	<b>8,225</b>	<b>97,086</b>	<b>49,602</b>	<b>11,209</b>	<b>616</b>	<b>1,896,553</b>	<b>276,407</b>
<b>At 31 March 2010</b>	<b>920,784</b>	<b>1,040,330</b>	<b>4,456</b>	<b>91,170</b>	<b>48,410</b>	<b>4,270</b>	<b>0</b>	<b>2,109,420</b>	<b>270,921</b>

COMPARATIVE MOVEMENTS IN 2009/10	COUNCIL DWELLINGS	OTHER LAND AND BUILDINGS	VEHICLES, PLANT, FURNITURE & EQUIPMENT	INFRASTRUCTURE ASSETS	COMMUNITY ASSETS	SURPLUS ASSETS	ASSETS UNDER CONSTRUCTION	TOTAL PROPERTY, PLANT AND EQUIPMENT	PFI ASSETS INCLUDED IN PROPERTY, PLANT AND EQUIPMENT
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>Cost or Valuation</b>									
At 1 April 2009	1,051,615	1,092,996	12,281	109,690	45,220	0	0	2,311,802	278,766
Additions	54,973	54,927	1,866	7,688	3,503	0	0	122,957	3,501
Donations	0	0	0	0	0	0	0	0	0
Revaluation increases/(decreases) recognised in the Revaluation Reserve	(11,824)	22,056	0	0	0	0	0	10,232	0
Revaluation Increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(645)	(29,408)	0	0	0	0	0	(30,053)	0
Derecognition - Disposals	(125)	0	0	0	0	0	0	(125)	0
Derecognition - Other <sup>3</sup>	(17,560)	(28,355)	0	(190)	(313)	0	0	(46,418)	0
Assets reclassified (to)/from Held for Sale	0	0	0	0	0	0	0	0	0
Other reclassification of assets	(4,594)	324	0	0	0	4,270	0	0	0
<b>At 31 March 2010</b>	<b>1,071,840</b>	<b>1,112,540</b>	<b>14,147</b>	<b>117,188</b>	<b>48,410</b>	<b>4,270</b>	<b>0</b>	<b>2,368,395</b>	<b>282,267</b>

### Accumulated Depreciation and Impairment

At 1 April 2009	150,324	73,995	8,638	23,293	0	0	0	256,250	5,667
Depreciation charge	12,556	14,875	1,053	2,768	0	0	0	31,252	5,679
Depreciation written out to the Revaluation Reserve	(11,824)	(14,560)	0	0	0	0	0	(26,384)	0
Impairment losses/(reversals) recognised in the Revaluation Reserve	0	0	0	0	0	0	0	0	0
Impairment losses/(reversals) recognised in the Surplus/Deficit on the Provision of Services	0	0	0	0	0	0	0	0	0
Derecognition - Disposals	0	0	0	0	0	0	0	0	0
Derecognition - Other <sup>3</sup>	0	(2,100)	0	(43)	0	0	0	(2,143)	0
Other movements in Depreciation and Impairment	0	0	0	0	0	0	0	0	0
<b>At 31 March 2010</b>	<b>151,056</b>	<b>72,210</b>	<b>9,691</b>	<b>26,018</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>258,975</b>	<b>11,346</b>

### Net Book Value

<b>At 31st March 2010</b>	<b>920,784</b>	<b>1,040,330</b>	<b>4,456</b>	<b>91,170</b>	<b>48,410</b>	<b>4,270</b>	<b>0</b>	<b>2,109,420</b>	<b>270,921</b>
<b>At 1st April 2009</b>	<b>901,291</b>	<b>1,019,001</b>	<b>3,643</b>	<b>86,397</b>	<b>45,220</b>	<b>0</b>	<b>0</b>	<b>2,055,552</b>	<b>273,099</b>

<sup>3</sup> Includes assets written out as part of an asset review in 2009/10, demolitions and stock transfers

## 11 PROPERTY, PLANT AND EQUIPMENT (continued)

### Depreciation

The following useful lives and depreciation rates have been used in the calculation of depreciation:

- Council Dwellings – Major Repairs Allowance used as proxy for depreciation
- Other Land and Buildings – As advised by qualified valuer
- Vehicles, Plant & Equipment - 5 years on a straight line basis
- Infrastructure assets - 40 years

### Capital Commitments

The Council had contractually binding capital commitments, in respect of schemes costing in excess of £1 million, totalling £16.988 million at 31st March 2011 (£59.9 million at 31st March 2010).

	Committed sum £m	Costs to 31/3/2011 £m	2011/2012 onwards £m	Contract End Date
Arnhem Wharf Primary School	1.998	0.509	1.489	31/10/2012
Ocean Estate Refurbishment	7.519	0.000	7.519	2015
Victoria Park Landscaping	7.082	0.364	6.718	31/12/2012
Victoria Park- Restoration and hub build	1.421	0.159	1.262	31/12/2012
<b>TOTAL</b>	<b>18.020</b>	<b>1.032</b>	<b>16.988</b>	

### Effects of Changes in Estimates

### Revaluations

The Authority carries out a rolling programme that ensures that all Property, Plant and Equipment required to be measured at fair value is revalued at least every five years. Valuations are as at 1st April in the year of valuation. An summary of total valuation per asset category is shown below.

In 2010/11, the housing stock was valued by Hilbery Chaplin Chartered Surveyors and the other assets were valued by Drivers Jonas Deloitte. Valuations of land and buildings were carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors. The valuation of council dwellings is in accordance with guidelines produced by the Department for Communities and Local Government in the 'Stock Valuation for Resource Accounting: Guidance for Valuers 2010'.

ANALYSIS OF ROLLING REVALUATION PROGRAMME	COUNCIL DWELLINGS £'000	OTHER LAND AND BUILDINGS £'000	VEHICLES, PLANT, FURNITURE & EQUIPMENT £'000	INFRASTRUCTURE ASSETS £'000	COMMUNITY ASSETS £'000	SURPLUS ASSETS £'000	ASSETS UNDER CONSTRUCTION £'000	TOTAL PROPERTY, PLANT AND EQUIPMENT £'000
Valued at historic cost	-	-	8,225	97,086	49,602	-	616	155,529
Valued at fair value in:			-	-	-	-	-	-
2010/11	637,909	54,376	-	-	-	1,195	-	693,480
2009/10	-	99,585	-	-	-	-	-	99,585
2008/09	-	905,632	-	-	-	10,014	-	915,646
2007/08	-	-	-	-	-	-	-	-
2006/07	-	32,313	-	-	-	-	-	32,313
<b>Value at 31 March 2011</b>	<b>637,909</b>	<b>1,091,906</b>	<b>8,225</b>	<b>97,086</b>	<b>49,602</b>	<b>11,209</b>	<b>616</b>	<b>1,896,553</b>

## 12 INVESTMENT PROPERTIES

The Council does not currently own any assets classified as investment properties.

## 13 LONG TERM DEBTORS

	Balance at 1/4/2010 £'000	Advances £'000	Income and Adjustments £'000	Balance at 31/3/2011 £'000
Mortgages on Right to Buy properties	331		(79)	252
Sundry Loans	736	187	(167)	756
	<b>1,067</b>	<b>187</b>	<b>(246)</b>	<b>1,008</b>

## 13a INTANGIBLE ASSETS

The Authority accounts for its software as intangible assets, to the extent that the software is not an integral part of a particular IT system and accounted for as part of the hardware item of Property, Plant and Equipment. The intangible assets include only purchased licenses, not internally generated software.

These are computer software licences which are treated as non-financial fixed assets which do not have a substance but are controlled by and provide a future economic benefit to the Council. The cost of the licences is charged to revenue over the economic life of the licences, which is currently one year.

	Balance at 1/4/2010 £'000	Expenditure 2010-11 £'000	Revenue Charge 2010-11 £'000	Balance at 31/3/2011 £'000
<b>Software licences</b>	<b>0</b>	<b>836</b>	<b>(836)</b>	<b>-</b>

## 14 FINANCIAL INSTRUMENT NOTES

Local authorities have are required to comply with the requirements of the Code of Practice on Local Authority Accounting in the United Kingdom, issued by the Chartered Institute of Public Finance and Accountancy / LASAAC Joint Committee. This requires the disclosure of financial instruments at amortised cost and fair value.

### Amortised Cost

These accounting standard have meant that most financial instruments (whether borrowing or investment) have to be valued on an amortised costs basis using the effective interest rate (EIR) method.

### Fair Value

In these disclosure notes, financial instruments are also required to be shown at fair value. Fair value is defined as the amount for which an asset could be exchanged or a liability settled, assuming that the transaction was negotiated between parties knowledgeable about the market in which they are dealing and willing to buy/sell at an appropriate price, with no other motive in their negotiations other than to secure a fair price.

### Compliance

The Council has:

- 1 Adopted the CIPFA's Treasury Management in the Public Services: Code of Practice.
- 2 Set treasury management indicators to control key financial instrument risks in accordance with CIPFA's Prudential Code .

### Types of Financial Instruments

Accounting regulations require the financial instruments (investment, lending and borrowing of the Council) shown on the balance sheet to be further analysed into various defined categories. The investments, lending and borrowing disclosed in the balance sheet are made up of the following categories of "financial instruments".

Financial Instrument Balances	Long-Term		Current		Total	
	31 March	31 March	31 March	31 March	31 March	31 March
	2010	2011	2010	2011	2010	2011
	£'000	£'000	£'000	£'000	£'000	£'000
<b>Financial Liabilities</b>						
Borrowings at amortised cost	302,475	325,533	14,633	34,803	317,108	360,336
Deferred Liabilities (PFI)	38,287	41,090	691	682	38,978	41,772
Trade creditors	0	0	44,314	68,271	44,314	68,271
<b>Total Liabilities</b>	<b>340,762</b>	<b>366,623</b>	<b>59,638</b>	<b>103,756</b>	<b>400,400</b>	<b>470,379</b>
<b>Investments</b>						
Loans and receivables	0	0	40,818	138,529	40,818	138,529
Trade debtors	0	0	15,879	18,142	15,879	18,142
Cash held at bank and cash equivalents	0	0	81,700	98,963	81,700	98,963
<b>Total Investments</b>	<b>0</b>	<b>0</b>	<b>138,397</b>	<b>255,634</b>	<b>138,397</b>	<b>255,634</b>

### NOTES

1. Market loans (LOBOs) of £77.5m have been included in long term borrowing but £17.5m of these have a call date in the next 12 months

2. Cash equivalents includes £65.523 million of short-term deposits with banks and building societies excluded from loans and receivables (£44.69 million at 31st March 2010).

The above long term figures are based on paragraph B9 of the 2010/11 code of practice guidance notes which states an instrument will be held for its full term unless the authority has a specified intention to repay/call in early or reliable experience of similar instruments being derecognised before the full term.

## 14 FINANCIAL INSTRUMENTS (Continued)

### Gains and Losses on Financial Instruments

The gains and losses recognised in the Income and Expenditure Account in relation to financial instruments are made up as follows:

	2009/2010		2010/2011	
	Financial Liabilities measured at amortised cost	Financial Assets Loans and receivables	Financial Liabilities measured at amortised cost	Financial Assets Loans and receivables
	£'000	£'000	£'000	£'000
Interest expense	27,379		28,404	
Interest income		1,313		1,631
<b>TOTAL INTEREST AND INVESTMENT INCOME</b>	<b>27,379</b>	<b>1,313</b>	<b>28,404</b>	<b>1,631</b>

The fair value of each class of financial assets and liabilities which are carried in the balance sheet at amortised cost is disclosed below:

### Methods and Assumptions in valuation technique

The fair value of an instrument is determined by calculating the Net Present Value (NPV) of future cash flows, which provides an estimate of the value of payments in the future in today's terms.

The discount rate used in the NPV calculation is the rate applicable in the market on the date of valuation for an instrument with the same structure, terms and remaining duration. For debt, this will be the new borrowing rate since premature repayment rates include a margin which represents the lender's profit as a result of rescheduling the loan; this is not included in the fair value calculation since any motivation other than securing a fair price should be ignored. The rates quoted in this valuation were obtained by the Council's treasury management consultants from the market on 31st March, using bid prices where applicable.

The calculations are made with the following assumptions:

- The PWLB liabilities have been calculated by reference to the "Premature Redemption" set of rates in force on the 31st March 2011.
- For other market debt and investments the discount rate used is the rates available for an instrument with the same terms from a comparable lender.
- Interpolation techniques have been used between available rates where the exact maturity period was not available.
- No early repayment or impairment is recognised.
- Fair values for all instruments in the portfolio have been calculated, but only those which are materially different from the carrying value are disclosed.
- The fair value of trade and other receivables is taken to be the invoiced or billed amount.

The fair values are as follows:

Fair Value of Liabilities Carried at Amortised Cost	31 March 2010	31 March 2010	31 March 2011	31 March 2011
	Carrying amount	Fair value	Carrying amount	Fair value
	£'000	£'000	£'000	£'000
Public Works Loans Board	233,723	298,874	278,358	318,014
Lender's option, borrower's option loans	77,608	85,606	77,614	84,153
Short term	5,777	5,777	4,364	4,364
Private Finance Initiatives (PFI)	38,978	38,978	41,771	41,771
Trade creditors	44,314	44,314	68,271	68,271
<b>Financial Liabilities</b>	<b>400,400</b>	<b>473,549</b>	<b>470,378</b>	<b>516,573</b>

Fair value is more than the carrying amount because the Council's portfolio of loans includes a number of fixed rate loans where the interest rate payable is lower/higher than the rates available for similar loans at the Balance Sheet date. The commitment to pay interest below current market rates reduces the amount that the Council would have to pay if the lender requested or agreed to early repayment of the loans.

Fair Value of Assets Carried at Amortised Cost	31 March 2010	31 March 2010	31 March 2011	31 March 2011
	Carrying amount	Fair value	Carrying amount	Fair value
	£'000	£'000	£'000	£'000
Fixed term deposits with banks and building societies	40,466	40,577	138,166	138,282
Equity Shares (not quoted in an active market)	352	352	352	352
Trade debtors	15,879	15,879	18,142	18,142
Cash held at Bank	37,010	37,010	33,440	33,440
Cash equivalents (deposits with banks and other financial institutions)	44,690	44,690	65,534	65,534
<b>Financial Assets</b>	<b>138,397</b>	<b>138,508</b>	<b>255,634</b>	<b>255,750</b>

The fair value is higher than the carrying amount because the Council's portfolio of investments includes a number of fixed rate loans where the interest rate receivable is higher than the rates available for similar loans at the Balance Sheet date.

Cash equivalents are highly liquid deposits that are convertible to cash at short-notice

## 14 FINANCIAL INSTRUMENTS (Continued)

### Nature and extent of risks arising from Financial Instruments

The Council's management of treasury risks actively works to minimise the Council's exposure to the unpredictability of financial markets and to protect the financial resources available to fund services. Risk management is carried out by a central treasury team under policies approved by the Council in the annual treasury management strategy report. The Council has fully adopted and implemented CIPFA's Code of Treasury Management Practices and has written principles for overall risk management as well as written policies and procedures covering specific areas such as credit risk, liquidity risk and market risk. The treasury management team have also fully implemented the Government's national investment guidance.

#### 1. Credit Risk

Credit risk is the possibility that other parties may not pay amounts due to the Council. This risk arises from the short-term lending of surplus funds to banks, building societies and other local authorities as well as credit exposures to the Council's customers. The Council invests primarily on the basis of prudence and then the level of returns. It is the policy of the Council to place deposits only with a limited number of high quality banks and building societies whose credit rating is independently assessed as sufficiently secure by the Council's treasury advisers and to restrict lending to a prudent maximum amount for each institution. The Council also has a policy of limiting deposits with institutions to a maximum of £10 million - £25 million.

The following maturity profile summarises the Council's potential maximum exposure to credit risk, based on past experience and current market conditions. No credit limits were exceeded during the financial year and the Council expects full repayment on the due date of deposits placed with its counterparties.

	Amounts at 31 March 2010 £'000	Historical experience of default %	Historical experience adjusted for market conditions as at 31 March 2010 %	Estimated maximum exposure to default and non- collection £'000
Cash & cash equivalents deposits	81,700	0%	0%	0%
Money Market Funds	0	0%	0%	0%
Fixed term deposits with banks and other financial institutions:				
1 - 3 months	20,466	0%	0%	0%
3 - 6 months	15,000	0%	0%	0%
6 - 12 months	5,000	0%	0%	0%
Over 12 months	352	0%	0%	0%
<b>TOTAL</b>	<b>122,518</b>	<b>0%</b>	<b>0%</b>	<b>0%</b>

	Amounts at 31 March 2011 £'000	Historical experience of default %	Historical experience adjusted for market conditions as at 31 March 2011 %	Estimated maximum exposure to default and non- collection £'000
Cash & cash equivalents deposits	78,947	0%	0%	0%
Money Market Funds	20,027	0%	0%	0%
Fixed term deposits with banks and other financial institutions:				
1 - 3 months	77,958	0%	0%	0%
3 - 6 months	35,117	0%	0%	0%
6 - 12 months	10,040	0%	0%	0%
Over 12 months	15,403	0%	0%	0%
<b>TOTAL</b>	<b>237,492</b>	<b>0%</b>	<b>0%</b>	<b>0%</b>

No credit limits were exceeded during the reporting period and the Council does not expect any losses from non-performance by any of its counterparties in relation to deposits and bonds.

The Council does not generally allow credit for customers, such that £1.82 million of the £x million balance (2009/10 - £5.616 million of the £57.918 million) is past its due date for payment, but not impaired. The past due amount can be analysed by age as follows:

## 14 FINANCIAL INSTRUMENTS (Continued)

### Nature and extent of risks arising from Financial Instruments (Continued)

Credit Risk	31 March 2010 £'000	31 March 2011 £'000
Three to six months	1,029	942
Six months to one year	2,302	355
More than one year	2,285	523
<b>TOTAL</b>	<b>5,616</b>	<b>1,820</b>

The Council has access to a facility to borrow from the Public Works Loans Board. As a result there is no significant risk that the Council will be unable to raise finance to meet its commitments under financial instruments. The Council has safeguards in place to ensure that a significant proportion of its borrowing does not mature for repayment at any one time in the future to reduce the financial impact of re-borrowing at a time of unfavourable interest rates. The Council's policy is to ensure that not more than 20% of loans are due to mature within any financial year through a combination of prudent planning of new loans taken out and, where it is economic to do so, making early repayments.

The maturity structure of financial liabilities is as follows (at nominal value):

Loans outstanding	31 March 2010 £'000	31 March 2011 £'000
Public Works Loans Board	233,723	278,358
Market debt	77,608	77,614
Temporary Borrowing	5,777	4,364
PFI	38,978	41,771
<b>TOTAL</b>	<b>356,086</b>	<b>402,107</b>
Less than 1 year	15,324	35,370
Between 1 and 2 years	26,244	76,871
Between 2 and 5 years	46,859	60,789
Between 5 and 10 years	125,350	114,229
More than 10 years	142,309	114,848
<b>TOTAL</b>	<b>356,086</b>	<b>402,107</b>

In the more than 10 years category, there are £77.5 million of Lender's Option, Borrower's Option (LOBO) market loans which have call dates in the next 12 months (£17.5 million), with the remaining £60 million having the first call date within 24 months.

### 3. Market Risk

#### Interest rate risk

The Council is exposed to interest rate risk in two different ways - the uncertainty of interest paid/received on variable rate instruments and the effect of fluctuations in interest rates on the fair value of an instrument.

The current interest rate risk for the authority is summarised below:

- Decreases in interest rates will affect interest earned on variable rate investments, potentially reducing income credited to the Comprehensive Income and Expenditure Account.
- Increases in interest rates will affect interest paid on variable rate borrowings, potentially increasing interest expense charged to the Comprehensive Income and Expenditure Account.
- The fair value of fixed rate financial assets will fall if interest rates rise. This will not impact on the Balance Sheet for the majority of assets held at amortised cost, but will impact on the disclosure note for fair value. It would have a negative effect on the Balance Sheet for those assets held at fair value in the Balance Sheet, which would also be reflected in the Movement in Reserves Statement.
- The fair value of fixed rate financial liabilities will rise if interest rates fall. This will not impact on the Balance Sheet for the majority of liabilities held at amortised cost, but will impact on the disclosure note for fair value.

The Council has a number of strategies for managing interest rate risk. The policy is to keep variable rate borrowings to a minimum. The Council does not currently have any variable rate loans, although £77.5m of market loans LOBOs have call dates that fall within financial years 2011/12 and 2012/13. During periods of falling interest rates, and where economic circumstances make it favourable, fixed rate loans will be repaid early to limit exposure to losses. The risk of loss is ameliorated as a proportion of Government grant payable on financing costs will normally move with prevailing interest rates on the Council's cost of borrowing and provide compensation for a proportion of higher costs.

The treasury management strategy assesses interest rate exposure - this feeds into the setting of the annual budget.

According to this assessment strategy, at 31 March 2011, if interest rates had been 1% higher with all other variables held constant, the financial effect would be :

## 14 FINANCIAL INSTRUMENTS (Continued)

### Nature and extent of risks arising from Financial Instruments (Continued)

Interest Rate Risk	2009/2010	2010/2011
	£'000	£'000
Increase in interest payable on variable rate borrowings	57	617
Increase in interest receivable on variable rate investments	(748)	(1,018)
<b>Impact on Income and Expenditure Account</b>	<b>(691)</b>	<b>(401)</b>

Fair Value Movements	2009/2010	2010/2011
	£'000	£'000
Decrease in fair value of fixed rate investments	104	682
Decrease in fair value of fixed rate borrowing liabilities	20,248	42,757
<b>Impact on Income and Expenditure Account</b>	<b>20,352</b>	<b>43,439</b>

The impact of a 1% fall in interest rates would be as above but with the movements being reversed.

	2009/2010	2010/2011
	£'000	£'000
London Mutual Insurance Limited	346	346
The Tower Hamlets Local Education Partnership	7	7
<b>Total</b>	<b>353</b>	<b>353</b>

## 15 INVENTORIES

	Consumable Stores		Client Services Work in		Total	
	2009/10	2010/11	2009/10	2010/11	2009/10	2010/11
	£'000	£'000	£'000	£'000	£'000	£'000
<b>Balance outstanding at start of year</b>	14	13	289	518	303	531
Purchases	18	19	229	286	247	305
Recognised as an expense in the year	(19)	(15)	0	0	(19)	(15)
<b>Balance outstanding at year-end</b>	<b>13</b>	<b>17</b>	<b>518</b>	<b>804</b>	<b>531</b>	<b>821</b>

Note: consumable stores consists of rechargeable pre-paid postage.

## 16 CONSTRUCTION CONTRACTS

The Authority does not have any construction contracts (work in progress) where the construction work is undertaken for the Authority's customers.

## 17 IMPAIRMENT LOSSES

Paragraph 4.7.4.2(1) of the Code requires disclosure by class of assets of the amounts for impairment losses and impairment reversals charged to the Surplus or Deficit on the Provision of Services and to Other Comprehensive Income and Expenditure. These disclosures are consolidated in note 11 reconciling the movement over the year in the Property, Plant and Equipment and Intangible Asset balances. An impairment review was carried out by qualified valuers at 31st March 2011 and concluded that there was no significant impairment to report.



## 18 DEBTORS

	31 March 2010 £'000	31 March 2011 £'000
Central government bodies	22,611	24,439
Other local authorities	307	307
Other entities and individuals	61,007	57,918
Payments in advance	4,695	4,667
<b>Total</b>	<b>88,620</b>	<b>87,331</b>

## 19 CASH AND CASH EQUIVALENTS

The balance of Cash and Cash Equivalents is made up of the following elements:

	31 March 2010 £'000	31 March 2011 £'000
Cash held by the Authority	37,010	33,440
Short-term deposits with banks and building societies	44,690	65,523
<b>Total Cash and Cash Equivalents</b>	<b>81,700</b>	<b>98,963</b>

## 20 ASSETS HELD FOR SALE

The Council does not currently have any properties which are classified as Assets Held for Sale.

## 21 CREDITORS

	31 March 2010 £'000	31 March 2011 £'000
Central government bodies	21,969	43,911
Other entities and individuals	64,417	74,747
Receipts in advance	10,133	8,930
<b>Total</b>	<b>96,519</b>	<b>127,588</b>

## 22 PROVISIONS

SHORT-TERM PROVISIONS	Balance at 1 April 2009 £'000	Amounts used in 2009/10 £'000	Contributions in 2009/10 £'000	Balance at 31 March 2010 £'000	Amounts used in 2010/11 £'000	Contributions in 2010/11 £'000	Balance at 31 March 2011 £'000
(a) Single Status	426	(135)	0	291	0	0	291
(b) Liability to DEFRA for BMW landfill usage	6	0	645	651	(638)	0	13
(c) Adoption Fees	43	0	18	61	(16)	0	45
(d) Redundancy provisions	0	0	0	0	0	506	506
(e) Employee benefits provision	3,762	(3,762)	4,207	4,207	(4,207)	4,418	4,418
<b>TOTAL</b>	<b>4,237</b>	<b>(3,897)</b>	<b>4,870</b>	<b>5,210</b>	<b>(4,861)</b>	<b>4,924</b>	<b>5,273</b>

LONG-TERM PROVISIONS	Balance at 1 April 2009 £'000	Amounts used in 2009/10 £'000	Contributions in 2009/10 £'000	Balance at 31 March 2010 £'000	Amounts used in 2010/11 £'000	Contributions in 2010/11 £'000	Balance at 31 March 2011 £'000
(f) Education salaries liability	25	(25)	0	0	0	0	0
(g) Primary Care Trust nursing charges	0	0	88	88	(88)	0	0
(h) Dangerous structures	13	(13)	0	0	0	0	0
(i) Youth and community contracts	101	(101)	0	0	0	0	0
(j) Metropolitan Police	176	0	0	176	(176)	0	0
(k) Employment Tribunal	60	0	90	150	(150)	0	0
(l) Commissioning Responsibility	53	(53)	0	0	0	0	0
(m) Insurance Fund	4,876	0	1,622	6,498	0	1,964	8,462
(n) Repayment of deposits	391	0	127	518	(137)	0	381
(o) Repayment of European funding	394	0	0	394	0	0	394
(p) Pension liability - part time staff	400	0	0	400	0	0	400
(q) Barkantine PFI	1,596	0	393	1,989	0	388	2,377
<b>TOTAL</b>	<b>8,085</b>	<b>(192)</b>	<b>2,320</b>	<b>10,213</b>	<b>(551)</b>	<b>2,352</b>	<b>12,014</b>

**17,287**

- (a) For additional costs resulting from the single status agreement which changed employees' conditions of service.
- (b) The Waste and Emissions Trading Act 2003 places a duty on waste disposal authorities (WDAs) to reduce the amount of Biodegradable Municipal Waste (BMW). The Landfill Allowance Trading Scheme allocates tradable landfill allowances to each WDA up to a defined upper limit.
- (c) Provision for the final payment to other authorities should particular children placed with potential adopters resident in other
- (d) Provision for redundancy settlements agreed for 2010/11.
- (e) Provision required under IFRS that represents the value of staff leave rolled over to the following financial year. This provision does
- (f) This provision was to accommodate the anticipated pay rise due to ex-employees following the cessation of the national pay body in
- (g) A provision applied to pay nursing cost invoices to THPCT in 2010/11.
- (h) The Council had been in dispute over the cost of various works under its dangerous structure obligations. The dispute was resolved in 2009/10 making the provision unnecessary.
- (i) Provision for youth and community contracts bonus settled, therefore provision not required.
- (j) Provision applied to repay Home Office grant during 2010/11.
- (k) To provide for payment following an unfair dismissal by the Council. The provision was applied during 2010/11.
- (l) Originally a provision for the disputed payment for a former borough resident's nursing care. It was determined that the Council is
- (m) To cover a range of self-insured risks including personal accident cover for staff, motor car credit guarantee insurance and
- (n) The provision is used to hold deposits received from contractors with approval for erecting temporary structures. On completion of the work, the deposits will be refunded to the contractors, less deductions for any liabilities incurred.
- (o) There are a number of European funded schemes where there is a probability that grant will need to be repaid.
- (p) To reflect the potential liability for 40 ex-employees, based on the additional pension contribution costs that the Council would have incurred if these staff had been allowed to join the pension fund.
- (q) To provide for the potential liability of PFI credits not being issued by the DCLG for the Barkantine PFI Scheme.

## 23 USABLE RESERVES

Movements in the Authority's usable reserves are detailed in the Movement in Reserves Statement and note 24.

## 24 UNUSABLE RESERVES

31 March 2010 £'000		31 March 2011 £'000
509,897	Revaluation Reserve	528,722
1,105,580	Capital Adjustment Account	852,406
764	Financial Instruments Adjustment Account	885
(689,924)	Pensions Reserve	(308,691)
3,902	Collection Fund Adjustment Account	3,154
(4,208)	Accumulating Compensated Absences Adjustment Account	(4,418)
<b>926,011</b>	<b>Total Unusable Reserves</b>	<b>1,072,058</b>

### Revaluation Reserve

The Revaluation Reserve contains the gains made by the Authority arising from increases in the value of its Property, Plant and Equipment. The balance is reduced when assets with accumulated gains are:

- revalued downwards or impaired and the gains are lost
- used in the provision of services and the gains are consumed through depreciation, or
- disposed of and the gains are realised.

The Reserve contains only revaluation gains accumulated since 1 April 2007, the date that the Reserve was created. Accumulated gains arising before that date are consolidated into the balance on the Capital Adjustment Account.

2009/10 £'000		2010/11 £'000
486,712	<b>Balance at 1 April</b>	509,897
38,951	Upward revaluation of assets	32,762
	Downward revaluation of assets and impairment losses not	
(2,313)	charged to the Surplus/Deficit on the Provision of Services	(1,001)
	Surplus or deficit on revaluation of non-current assets not	
36,638	posted to the Surplus or Deficit on the Provision of Services	31,761
	Difference between fair value depreciation and historical cost	
(5,394)	depreciation	(8,856)
(8,059)	Accumulated gains on assets sold or scrapped	(4,080)
(13,453)	Amount written off to the Capital Adjustment Account	(12,936)
<b>509,897</b>	<b>Balance at 31 March</b>	<b>528,722</b>

## 24 UNUSABLE RESERVES

### Capital Adjustment Account

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. The Account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis). The Account is credited with the amounts set aside by the Authority as finance for the costs of acquisition, construction and enhancement.

The Account contains accumulated gains and losses on Investment Properties and gains recognised on donated assets that have yet to be consumed by the Authority.

The Account also contains revaluation gains accumulated on Property, Plant and Equipment before 1 April 2007, the date that the Revaluation Reserve was created to hold such gains.

Note 6 provides details of the source of all the transactions posted to the Account, apart from those involving the Revaluation Reserve.

2009/10 £'000		2010/11 £'000
<b>1,090,570</b>	<b>Balance at 1 April</b>	<b>1,105,580</b>
	Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:	
(31,253)	Charges for depreciation and impairment of non current assets	(38,219)
(30,073)	Revaluation losses (and reversals) on Property, Plant and Equipment	(294,863)
(1,374)	Amortisation of intangible assets	(836)
(15,045)	Revenue expenditure funded from capital under statute	(32,322)
(44,399)	Amounts of non current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(30,311)
<u>(122,144)</u>		<u>(396,551)</u>
13,452	Adjusting amounts written out of the Revaluation Reserve	12,937
<u>(108,692)</u>	<b>Net written out amount of the cost of non current assets consumed in the year</b>	<u><b>(383,614)</b></u>
	Capital financing applied in the year:	
11,387	Use of the Capital Receipts Reserve to finance new capital expenditure	5,792
13,836	Use of the Major Repairs Reserve to finance new capital expenditure	7,641
76,782	Application of grants to capital financing from the Capital Grants Unapplied Account	102,448
7,260	Statutory provision for the financing of capital investment charged against the General Fund and HRA balances	7,373
<u>14,437</u>	Capital expenditure charged against the General Fund and HRA balances	<u>7,186</u>
123,702		130,440
<b>1,105,580</b>	<b>Balance at 31 March</b>	<b>852,406</b>

## 24 UNUSABLE RESERVES

### Financial Instruments Adjustment Account

The Financial Instruments Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for income and expenses relating to certain financial instruments and for bearing losses or benefiting from gains per statutory provisions. [The Authority uses the Account to manage premiums paid on the early redemption of loans. Premiums are debited to the Comprehensive Income and Expenditure Statement when they are incurred, but reversed out of the General Fund Balance to the Account in the Movement in Reserves Statement. Over time, the expense is posted back to the General Fund Balance in accordance with statutory arrangements for spreading the burden on council tax. In the Authority's case, this period is the unexpired term that was outstanding on the loans when they were redeemed. As a result, the balance on the Account at 31 March 2011 will be charged to the General Fund over the next 14 years.]

2009/10 £'000		2010/11 £'000
280	<b>Balance at 1 April</b>	764
	Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs	
484	chargeable in the year in accordance with statutory requirements	121
<b>764</b>	<b>Balance at 31 March</b>	<b>885</b>

### Pensions Reserve

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post employment benefits and for funding benefits in accordance with statutory provisions. The Authority accounts for post employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as the Authority makes employer's contributions to pension funds or eventually pays any pensions for which it is directly responsible. The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the Authority has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

2009/10 £'000		2010/11 £'000
(270,565)	<b>Balance at 1 April</b>	(689,923)
(415,603)	Actuarial gains or losses on pensions assets and liabilities	240,732
	Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit	
(39,872)	on the Provision of Services in the Comprehensive Income and Expenditure Statement	104,442
36,117	Employer's pensions contributions and direct payments to pensioners payable in the year	36,059
<b>(689,923)</b>	<b>Balance at 31 March</b>	<b>(308,690)</b>

**Collection Fund Adjustment Account**

The Collection Fund Adjustment Account manages the differences arising from the recognition of council tax income in the Comprehensive Income and Expenditure Statement as it falls due from council tax payers compared with the statutory arrangements for paying across amounts to the General Fund from the Collection Fund.

2009/10 £'000		2010/11 £'000
(597)	<b>Balance at 1 April</b>	3,902
	Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	(748)
4,499		
<b>3,902</b>	<b>Balance at 31 March</b>	<b>3,154</b>

**Accumulating Compensated Absences Adjustment Account**

The Accumulating Compensated Absences Adjustment Account absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated absences earned but not taken in the year e.g. annual leave entitlement carried forward at 31 March. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the Account.

2009/10 £'000		2010/11 £'000
(3,762)	<b>Balance at 1 April</b>	(4,207)
3,762	Settlement or cancellation of accrual made at the end of the preceding year	4,207
(4,207)	Amounts accrued at the end of the current year	(4,418)
	Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(211)
(445)		
<b>(4,207)</b>	<b>Balance at 31 March</b>	<b>(4,418)</b>

## 25A NOTE A TO THE CASH FLOW STATEMENT

2009/10 £'000		2010/11 £'000
(20,037)	<b>Net Surplus or (Deficit) on the Provision of Services</b>	<b>(127,743)</b>
	<b><u>Adjust net surplus or (deficit) on the provision of services for non cash movements</u></b>	
45,116	Depreciation	38,022
12,492	Impairment and downward valuations	293,779
1,374	Amortisation	836
(484)	Adjustments for effective interest rates	120
(451)	Increase/Decrease in Interest Creditors	241
(3,835)	Increase/Decrease in Creditors	26,832
72	Increase/Decrease in Interest and Dividend Debtors	(111)
(7,002)	Increase/Decrease in Debtors	1,943
(228)	Increase/Decrease in Inventories	(290)
3,756	Pension Liability	(121,270)
2,656	Contributions to/(from) Provisions	1,653
448	Provision for Equal Pay	211
44,400	Carrying amount of non-current assets sold (property, plant and equipment, investment property and intangible assets)	30,311
<b>98,314</b>		<b>272,277</b>
	<b><u>Adjust for items included in the net surplus or deficit on the provision of services that are investing or financing activities</u></b>	
(63,017)	Capital Grants credited to surplus or deficit on the provision of services	(105,700)
(1,329)	Proceeds from the sale of property plant and equipment, investment property and intangible assets	(13,869)
<b>(64,346)</b>		<b>(119,569)</b>
<b>13,931</b>	<b>Net cash flows from operating activities</b>	<b>24,965</b>

## 25 CASH FLOW STATEMENT - OPERATING ACTIVITIES

The cash flows for operating activities include the following items:

2009/10 £'000		2010/11 £'000
1,385	Interest received	1,520
(27,830)	Interest paid	(28,043)
0	Dividends received	0
<b>(26,445)</b>		<b>(26,523)</b>

## 26 CASH FLOW STATEMENT - INVESTING ACTIVITIES

2009/10 £'000		2010/11 £'000
(119,730)	Purchase of property, plant and equipment, investment property and intangible assets	(110,899)
(7,080)	Purchase of short-term and long-term investments	(97,711)
(20,024)	Other payments for investing activities	(188)
1,382	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	13,457
0	Proceeds from short-term and long-term investments	0
69,368	Other receipts from investing activities	144,739
<b>(76,084)</b>	<b>Net cash flows from investing activities</b>	<b>(50,602)</b>

## 27 CASH FLOW STATEMENT - FINANCING ACTIVITIES

2009/10 £'000		2010/11 £'000
65,778	Cash receipts of short- and long-term borrowing	51,000
(278)	Billing Authorities - Council Tax and NNDR adjustments	282
0	Other receipts from financing activities	0
(358)	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	(369)
(12,901)	Repayments of short- and long-term borrowing	(8,013)
<b>52,241</b>	<b>Net cash flows from financing activities</b>	<b>42,900</b>

## 28 TRADING OPERATIONS

The following services are reported as trading activities in 2010/2011:

	2009/2010			2010/2011			Cumulative Balance 31/03/2011 £'000
	Expenditure £'000	Income £'000	Surplus/ (Deficit) £'000	Expenditure £'000	Income £'000	Surplus/ (Deficit) £'000	
	0	0	0	0	0	0	0
Building and Property Services	99	0	(99)	0	0	0	0
Street Trading	2,005	2,090	85	2,258	2,356	98	(113)
	0	0	0	0	0	0	0
<b>TOTAL TRADING ACCOUNTS</b>	<b>2,104</b>	<b>2,090</b>	<b>(14)</b>	<b>2,258</b>	<b>2,356</b>	<b>98</b>	<b>(113)</b>

## 29 AGENCY SERVICES

The Council has an agency agreement with the Thames Water Authority whereby the Council is responsible for collecting unmetered water charges from council tenants. For this service the council receives a commission based on the total TWA bill chargeable for the year. In 2009/2010 this commission amounted to £686,261 (£774,552 in 2009/2010).

## 30 POOLED BUDGETS

Under the terms of a Section 31 Agreement (Health Act 1999), the Council entered into five Pooled Budget and Lead Commissioning agreements with the Primary Care Trust. The Council will manage and deliver statutory functions, alongside the Primary Care Trust, in respect of the following:

- (a) Integrated Community Equipment Service (ICES)
- (b) Services for Adults with Learning Difficulties (LDSA)
- (c) Integrated Services for Disabled Children in the Children's Trust Pathfinder (DCTP)
- (d) Occupational Therapy Service (OTS)

The purpose of these arrangements is to work collaboratively with health providers in the Borough, to deliver efficient, joined up health and social care services to residents.

A summary memorandum Income and Expenditure Account for each pooled budget is shown below. The Council's contribution to each pool is included in the Adult Social Care gross expenditure figure disclosed in the Comprehensive Income and Expenditure Account.

2010/11	ICES £'000	LDSA £'000	DCTP £'000	OTS £'000
<b>Income</b>				
The Council	1,162	1,221	6,521	1,806
Barts and the London NHS Trust	16	0	0	0
Tower Hamlets Primary Care Trust	702	1,704	1,537	1,805
	1,880	2,925	8,058	3,611
<b>Expenditure</b>	1,880	2,913	8,058	3,338
<b>Surplus/(Deficit) for the year</b>	-	12	-	273

2009/10	ICES £'000	LDSA £'000	DCTP £'000	OTS £'000
<b>Income</b>				
The Council	1,102	1,299	6,521	1,803
Tower Hamlets Primary Care Trust	565	1,704	1,537	1,591
	1,667	3,003	8,058	3,394
<b>Expenditure</b>	1,667	3,003	8,058	3,394
<b>Surplus/Deficit for the year</b>	-	-	-	-

## 31 MEMBERS' ALLOWANCES

The Authority paid the following amounts to members of the council during the year.

	2009/10 £'000	2010/11 £'000
Allowances	926	889
Expenses	1	0
<b>Total</b>	<b>927</b>	<b>889</b>



## 32 OFFICERS' REMUNERATION

The remuneration paid to the Authority's senior employees is as follows:

2009/10	Salary, Fees and Allowances £	Expenses £	Compensation for Loss of Office £	Pension Contribution £	Other £	Total £
Mr M F Smith - former Chief Executive <sup>2</sup>	73,966			10,107		84,073
Mr K A Collins - Chief Executive	177,413			26,848		204,261
<b>Corporate Directors</b>						
Children, Schools and Families	120,789			18,270		139,059
Communities, Localities and Culture	140,980			21,788		162,768
Resources	135,604			20,940		156,544
Adults Health and Wellbeing	112,982	161		18,434		131,577
Development and Renewal	136,306			21,050		157,356
Assistant Chief Executive (Legal)	121,052			18,661		139,713
Former Assistant Chief Executive <sup>2</sup>	113,694			17,508	11,620	142,822
	<b>1,132,786</b>	<b>161</b>	<b>0</b>	<b>173,606</b>	<b>11,620</b>	<b>1,318,173</b>

2010/11	Salary, Fees and Allowances £	Expenses £	Compensation for Loss of Office £	Pension Contribution £	Other £	Total £
Mr K A Collins - Chief Executive	186,336	192		29,055		215,583
<b>Corporate Directors</b>						
Children, Schools and Families	124,912			19,250		144,162
Communities, Localities and Culture	141,487			21,869		163,356
Resources	139,766			21,597		161,363
Adults Health and Wellbeing	124,913	208		19,250		144,371
Development and Renewal	135,758			20,964		156,722
Assistant Chief Executive (Legal)	123,937			19,096		143,033
	<b>977,109</b>	<b>400</b>	<b>0</b>	<b>151,081</b>	<b>0</b>	<b>1,128,590</b>

The Authority's other employees receiving more than £50,000 remuneration for the year (excluding employer's pension contributions) were paid the following amounts:

Remuneration band	2009/10					2010/11				
	Teaching Staff	Includes Teaching Redundancies	Other Staff	Includes Other Staff Redundancies	Total Staff	Teaching Staff	Includes Teaching Redundancies	Other Staff	Includes Other Staff Redundancies	Total Staff
50,000 - 54,999	213	(1)	68	(2)	281	226	(2)	85	(29)	311
55,000 - 59,999	105	(2)	77	(3)	182	124	0	81	(16)	205
60,000 - 64,999	40	(1)	41	(3)	81	58	(1)	52	(19)	110
65,000 - 69,999	41	(2)	21	(4)	62	44	(1)	51	(26)	95
70,000 - 74,999	20	(2)	19	(2)	39	23	(1)	38	(17)	61
75,000 - 79,999	18	(5)	12	(4)	30	16	(3)	24	(20)	40
80,000 - 84,999	9	(1)	11	(2)	20	8	0	17	(10)	25
85,000 - 89,999	2	0	5	(3)	7	11	(1)	13	(6)	24
90,000 - 94,999	0	0	11	(5)	11	3	(1)	14	(7)	17
95,000 - 99,999	4	(2)	4	0	8	2	(2)	7	(4)	9
100,000 - 104,999	2	0	6	(1)	8	6	(4)	10	(6)	16
105,000 - 109,999	5	0	0	0	5	2	(1)	2	(2)	4
110,000 - 114,999	1	0	1	0	2	2	0	4	(3)	6
115,000 - 119,999	1	0	0	0	1	4	(1)	1	(1)	5
120,000 - 124,999	2	0	0	0	2	2	0	2	(1)	4
125,000 - 129,999	0	0	0	0	0	0	0	2	(2)	2
130,000 - 134,999	0	0	0	0	0	1	0	0	0	1
135,000 - 139,999	0	0	0	0	0	0	0	1	(1)	1
140,000 - 144,999	0	0	0	0	0	0	0	1	(1)	1
145,000 - 149,999	0	0	1	(1)	1	0	0	0	0	0
150,000 - 154,999	0	0	0	0	0	0	0	0	0	0
155,000 - 159,999	0	0	0	0	0	0	0	1	(1)	1
160,000 - 164,999	0	0	0	0	0	0	0	0	0	0
165,000 - 169,999	0	0	1	(1)	1	0	0	0	0	0
170,000 - 174,999	0	0	0	0	0	0	0	0	0	0
175,000 - 179,999	0	0	0	0	0	0	0	0	0	0
180,000 - 184,999	0	0	0	0	0	0	0	1	(1)	1
185,000 - 189,999	0	0	0	0	0	0	0	0	0	0
190,000 - 194,999	0	0	0	0	0	0	0	0	0	0
195,000 - 199,999	0	0	0	0	0	0	0	0	0	0
200,000 - 204,999	0	0	0	0	0	0	0	0	0	0
205,000 - 209,999	0	0	1	(1)	1	0	0	0	0	0
	<b>463</b>	<b>(16)</b>	<b>279</b>	<b>(32)</b>	<b>742</b>	<b>532</b>	<b>(18)</b>	<b>407</b>	<b>(173)</b>	<b>939</b>

### 33 EXTERNAL AUDIT COSTS

The Authority has incurred the following costs in relation to the audit of the Statement of Accounts, certification of grant claims and statutory inspections and to non-audit services provided by the Authority's external auditors:

	2009/10 £'000	2010/11 £'000
Fees payable to appointed external auditor with regard to external audit services carried out by the appointed auditor for the year	493	480
Fees payable to appointed external auditor in respect of statutory inspections	20	0
Fees payable to appointed external auditor for the certification of grant claims and returns for the	119	113
Fees payable in respect of other services provided by external auditors during the year	0	0
<b>Total</b>	<b>632</b>	<b>593</b>

The fees for other services related to the National Fraud Initiative.

### 34 DEDICATED SCHOOLS GRANT

The Council's expenditure on schools is funded by grant monies provided by the Department for Children, Schools and Families - the Dedicated Schools Grant (DSG). DSG is ring-fenced and can only be applied to meet expenditure properly included in the Schools Budget. The Schools Budget includes elements for a restricted range of services provided on an authority-wide basis and for the Individual Schools Budget, which is divided into a budget share for each school. Over and underspends on the two elements are required to be accounted for separately.

Details of the deployment of DSG receivable for 2009/10 are as follows:

Notes	Central Expenditure £'000	Individual Schools Budget £'000	Total £'000
A Final DSG for 2009/10	18,701	214,054	232,755
B Brought forward from 2008/09	5,910	0	5,910
C Carry forward to 2010/11 agreed in advance	0	0	0
<b>D Agreed budgeted distribution in 2009/10</b>	<b>24,611</b>	<b>214,054</b>	<b>238,665</b>
E Actual central expenditure	(19,726)	0	(19,726)
F Actual ISB deployed to schools	0	(214,054)	(214,054)
G Local authority contribution for 2009/10	0	0	0
<b>H Carry forward to 2010/11</b>	<b>4,885</b>	<b>-</b>	<b>4,885</b>

A DSG figure as issued by the Department on 25 June 2009.

B Figure brought forward from 2008/09 as agreed with the Department.

Any amount which the authority decided after consultation with the schools forum to carry forward to 2010/11 rather than distribute in 2009/10.

D Budgeted distribution of DSG, adjusted for carry-forward, as agreed with the schools forum.

E Actual amount of central expenditure items in 2009/10.

F Amount of ISB actually distributed to schools.

G Any contribution from the local authority in 2009/10 which substituted for DSG in funding the Schools Budget.

H Carry forward to 2010/11.

Details of the deployment of DSG receivable for 2010/11 are as follows:

Notes	Central Expenditure £'000	Individual Schools Budget £'000	Total £'000
A Final DSG for 2010/11	17,190	229,067	246,257
B Brought forward from 2009/10	4,885	0	4,885
C Carry forward to 2011/12 agreed in advance	0	0	0
<b>D Agreed budgeted distribution in 2010/11</b>	<b>22,075</b>	<b>229,067</b>	<b>251,142</b>
E Actual central expenditure	(20,967)	0	(20,967)
F Actual ISB deployed to schools	0	(229,067)	(229,067)
G Council contribution for 2010/11	0	0	0
<b>H Carry forward to 2011/12</b>	<b>1,108</b>	<b>-</b>	<b>1,108</b>

A DSG figure as issued by DCSF on 25 June 2010 plus exceptional circumstances grant notified in January 2011.

B Figure brought forward from 2009/10.

The amount which the Council decided after consultation with the schools forum to carry forward to 2011/12 rather than distribute in 2010/11.

D Budgeted distribution of DSG, adjusted for carry forward, as agreed with the schools forum.

E Actual amount of central expenditure items in 2010/11.

F Amount of ISB actually distributed to schools.

G Any contribution from the Council in 2010/11 which substituted for DSG in funding the Schools Budget.

H Difference between budgeted distributions and actuals plus carry forward agreed in advance.

## 35 GRANT INCOME

The Authority credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2010/11:

	2009/10 £'000	2010/11 £'000
<b>Credited to Taxation and Non Specific Grant Income</b>		
<b>Non-Ringfenced Government Grants</b>		
Revenue Support Grant	(42,910)	(29,443)
Local authority Business Growth Initiative (LABGI)	(306)	0
Area Based Grant	(31,171)	(42,053)
Housing and Planning Delivery Grant (HPDG)	(2,327)	0
<b>Total Non-Ringfenced Government Grants</b>	<b>(76,714)</b>	<b>(71,496)</b>
<b>Capital Grants and Contributions</b>		
Non-conditional grants:		
Schools-funded Capital Programme	0	(4,898)
Transport for London Funding	(2,652)	(4,654)
Contributions from schools towards BSF	0	(2,948)
Public Realm Improvements	(475)	(2,179)
Major Works Contributions (cash received)	(2,532)	(1,750)
Social Housing Energy Efficiency Grant	(380)	(1,690)
Modernisation Grant	(1,451)	(1,577)
Regional Housing Pot	(123)	(1,063)
Other Non-Conditional Grants Received	(2,439)	(1,268)
Conditional grants:		
Building Schools for the Future	(32,396)	(45,913)
New Deal For Communities	(10,289)	(4,957)
Primary Capital Programme	(6,988)	(3,392)
Surestart Grant	(1,429)	(1,846)
Housing and Planning Delivery Grant	(1,001)	0
Other Conditional Grants Applied	(1,622)	(2,943)
Developers' Contributions	(8,772)	(2,946)
<b>Total Capital Grants and Contributions</b>	<b>(72,549)</b>	<b>(84,024)</b>
<b>Credited to Services</b>		
Capital Grants funding REFCUS	(6,063)	(19,231)
Developers' Contributions (capital) funding REFCUS	(241)	(2,064)
Developers' Contributions (revenue)	(2,808)	(2,086)
Standards Fund	(2,840)	(3,632)
Other Revenue Grants	(181)	(1,725)
<b>Total Credited to Services</b>	<b>(12,133)</b>	<b>(28,738)</b>
<b>Total Grant Income in I&amp;E</b>	<b>(161,396)</b>	<b>(184,258)</b>

The Authority has received a number of grants, contributions and donations that have yet to be recognised as income as they have conditions attached to them that will require the monies or property to be returned to the giver. The balances at the year-end are as follows:

	31 March 2010 £'000	31 March 2011 £'000
<b>Capital Grants Receipts in Advance</b>		
Developers' Contributions	28,018	31,396
Building Schools for the Future	2,986	27,387
Major Works Invoices	8,551	9,349
National Affordable Housing Programme	0	7,900
Housing Targeted Funding	7,174	6,554
Primary Capital Programme	1,520	3,028
High Street 2012	489	1,596
Other capital grants and contributions	1,292	3,264
<b>Total</b>	<b>50,030</b>	<b>90,474</b>

## 36 RELATED PARTIES

The Authority is required to disclose material transactions with related parties – bodies or individuals that have the potential to control or influence the council or to be controlled or influenced by the council. Disclosure of these transactions allows readers to assess the extent to which the council might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with the Authority.

### Central Government

Central government has effective control over the general operations of the Authority– it is responsible for providing the statutory framework within which the Authority operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Authority has with other parties (eg council tax bills, housing benefits). Grants received from government departments are set out in the subjective analysis in Note 44 on reporting for resources allocation decisions. Grant receipts outstanding at 31 March 2011 are within the creditors note.

## 36 RELATED PARTIES

### Partnerships

The Council has partnership arrangements with the following organisations:

- NDC (New Deal for the Community)
- PCT (Primary Care Trust)

### Pension Fund

The Council borrows from or lends to the Pension Fund. The year end balance is shown in note 14 to the Core Financial Statements. The Pension Fund accounts are presented on later pages to this Statement.

### Membership of and relationship with other organisations

Where a Member has involvement with an external organisation, the Council discloses details of the relationship. In addition, if the Council makes material payments to the organisation, then details of amounts over £10,000 are disclosed.

Organisations	Councillor	Relationship With Organisation	Payments by the Council 2010/11 £'000	Payments by the Council 2009/10 £'000
Bangabandhu Primary School	C Gibbs	LEA Appointed Governor		
Bangladesh Youth Movement	A Khan	Employee	67	
Bethnal Green Technology College	K Ahmed	School Governor	15	
Bishop Challoner Catholic Collegiate School	A Asad	Member	46	
Boundary Community School	M Mukit	Executive Committee Member	49	
Bromley by Bow Centre	H Uddin	Employee	1,005	1,067
	Z Rahman	Member of the Advisory Board		
	R Khan	Board Member		
Central Foundation Girls School	K U Ahmed	Governor	24	
Chisenhale Gallery	J J Peck	Independent Board Member	31	10
Citizens Advice Bureau	R U Ahmed	Trustee	288	260
	A Whitelock	Trustee		
Collective of Bangladeshi School Governors	M Mukit	Executive Committee Member	27	25
	S Islam	Member		
Cultural Industries Development Agency	D Jones	Council Representative	30	35
East End Homes	R M A Saunders	Council Representative	763	1,002
	M Uz-Zaman	Council Representative		
Financial Ombudsman Service	T J Archer	Employee	80	
Greater London Enterprise Board	C Gibbs	Council Representative	17	24
Island Neighbourhood Project	M Miah	Employee		
Isle of Dogs Community Foundation	D J Edgar	Council Representative	826	863
	T J Archer	Trustee		
Jagonari Women's Educational Resource Centre	A M O Ahmed	Wife is a employee of the Organisation	566	
Kingsley Hall	R Khan	Trustee		19
Kingston University	S Eaton	Employee	10	
Kobi Nazrul Centre	Z Rahman	Board Member - Voluntary	15	
London Councils	A A Omer	Scrutiny	1,601	
	H U Abbas	Council Representative		
Mind	A Whitelock	Employee	960	
Mulberry Girls School	R Khan	Governor-Daughter attends the school		
Museum of London/Museum in Docklands	D Jones	Was appointed Secretary of State		
Newark Youth London	O Rahman	Patron	32	
Ocean Estate TLA	A Whitelock	Ward Councillor Member		
Poplar HARCA	A M O Ahmed	Council Representative	2,264	2,252
	K U Ahmed	Board Member		
	R Khan	Board Member		
Princes Trust	A T Jackson	Council Representative	55	
Rich Mix	R M A Saunders	Council Representative	45	60
Sangeeta Ltd	S Ali	Employee		
Smithy Street Primary School	R Khan	Governor-Daughter attends the school		
	A Khan	Governor		
Solander Gardens Muslim Community and Education Centre	H Miah	Council Representative		
Spitalfields Housing Association	M Mukit	Board Member		
Sports Network Council	M Mukit	Executive Committee Member	23	
T H Primary Care Trust	D Jones	Was appointed as a non executive member by NHS Appointments	1,479	1,862
Time for Children	G Thienel	Employee	79	
Tower Hamlets Community Housing	K Ahmed	Council Representative	243	292
	S Islam	Council Nominee		
	A Choudhury	Council Representative		
	C Gibbs	Council Representative		
	T J Archer	Finance and Development Member		
Tower Hamlets Council of Mosque	A Ullah	Executive Committee Member	109	109
Tower Hamlets Homes	D Jones	Council Representative		
	S Islam	Council Representative		
	A Whitelock	Board Member - Council Appointee		
Tower Hamlets Law Centre	L Rahman (Mayor)	Member	247	
Tower Hamlets Sports Council	A M O Ahmed	Council Representative		13
	E E Davis	Council Representative		
	L Pavitt	Council Representative		
Tower Project	A T Jackson	Council Representative	2,446	2,244
Visit London	D Jones	Was Seconded from London Councils	28	27
Wapping Bangladesh Association	S Haque	Council Representative	28	
Women's Environmental Net Work	S Aktar	Trustee - Board Member	17	

## 37 CAPITAL EXPENDITURE AND CAPITAL FINANCING

The total amount of capital expenditure incurred in the year is shown in the table below (including the value of assets acquired under finance leases and PFI/PP contracts), together with the resources that have been used to finance it. Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the Authority, the expenditure results in an increase in the Capital Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the Authority that has yet to be financed. The CFR is analysed in the second part of this note.

	2009/10 £'000	2010/11 £'000
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The following table shows how capital expenditure was financed in the year

### Expenditure

Property, Plant and Equipment	122,957	115,418
Investment Properties	-	-
Intangible Assets	1,374	836
Deferred Consideration	-	-
Revenue Expenditure Funded from Capital Under Statute	15,045	32,322
<b>TOTAL</b>	<b>139,376</b>	<b>148,576</b>

### Sources of Finance

Borrowing	22,934	25,692
Capital Receipts and Contributions	88,169	108,241
Major Repairs Reserve	13,836	7,641
Direct Revenue Funding	14,437	7,002
<b>TOTAL</b>	<b>139,376</b>	<b>148,576</b>

	2009/10 £'000	2010/11 £'000
<b>Opening Capital Financing Requirement</b>	<b>421,698</b>	<b>437,730</b>
<b>Capital investment</b>		
Property, Plant and Equipment	122,957	115,418
Intangible Assets	1,374	836
Revenue Expenditure Funded from Capital under Statute	15,045	32,322
<b>Sources of finance</b>		
Capital receipts and contributions	(88,169)	(108,239)
Major repairs reserve	(13,836)	(7,641)
Sums set aside from revenue:		
• Direct revenue contributions	(14,437)	(7,002)
• Minimum Revenue Provision <sup>1</sup>	(6,902)	(7,003)
<b>Closing Capital Financing Requirement</b>	<b>437,730</b>	<b>456,421</b>

### Explanation of movements in year

Increase in underlying need to borrowing (supported by government financial assistance)	11,003	17,001
Increase in underlying need to borrowing (unsupported by government financial assistance)	5,029	1,690
<b>Increase/(decrease) in Capital Financing Requirement</b>	<b>16,032</b>	<b>18,691</b>

<sup>1</sup> Capital Financing Requirement excludes PFI schemes

## 38 LEASES

### Authority as Lessee

#### Finance Leases

As a Lessee the Council has no material finance lease to report .

Future payments on account of these leases were reported within the operating lease information.

#### Operating Leases

Council leased in few properties, vehicles and equipments.

The future minimum lease payments due under these leases in future years are:

#### Leased In Assets

	Land & Buildings	Vehicles Plant & Equipment	Land & Buildings	Vehicles Plant & Equipment
	31 March 2010	31 March 2011	31 March 2010	31 March 2011
	£'000	£'000	£'000	£'000
<b>Adults Health and Wellbeing</b>				
Not later than one year	0	0	148	0
Later than one year and not later than five years	0	0	590	0
Later than five years	125	0	2,239	0
<b>Chief Executive's</b>				
Not later than one year	0	277	0	0
Later than one year and not later than five years	5	0	0	0
Later than five years	6256	0	0	0
<b>Children Schools and Families</b>				
Not later than one year	0	36	292	470
Later than one year and not later than five years	66	444	848	470
Later than five years	32	167	982	0
<b>Communities Localities and Culture</b>				
Not later than one year	0	327	0	346
Later than one year and not later than five years	0	225	0	789
Later than five years	0	138	0	105
<b>Development and Renewal</b>				
Not later than one year	0	0	6,110	178
Later than one year and not later than five years	0	0	22,363	0
Later than five years	30	0	9,120	0
<b>Total</b>				
Not later than one year	0	640	6550	994
Later than one year and not later than five years	71	669	23801	1259
Later than five years	6443	305	12341	105
	6,514	1,614	42,692	2,358

The expenditure charged to the Services line in the Comprehensive Income and Expenditure Statement during the year in relation to these leases was:

	Land & Buildings	Vehicles Plant & Equipment	Land & Buildings	Vehicles Plant & Equipment
	31 March 2010	31 March 2011	31 March 2010	31 March 2011
	£'000	£'000	£'000	£'000
<b>Adults Social Care</b>				
Minimum Lease Payments	148	0	148	0
<b>Highways &amp; Transport</b>				
Minimum Lease Payments	0	327	0	628
<b>Children's and Education Services</b>				
Minimum Lease Payments	228	815	312	677
<b>Development and Renewal</b>				
Minimum Lease Payments	6291	277	6,120	442
<b>Total</b>				
Minimum Lease Payments	6,667	1,419	6,580	1,747

### Authority as Lessor

#### Finance Leases

As a Lessor the Council has no material finance lease to report .

#### Operating Leases

The Council leases out property and equipment under operating leases for the following purposes:

- for economic development purposes to provide suitable affordable accommodation for local businesses

The future minimum lease payments receivable under non-cancellable leases in future years are:

	31 March 2010	31 March 2011
	£'000	£'000
Not later than one year	(1,729)	(1,684)
Later than one year and not later than five years	(6,070)	(5,808)
Later than five years	(12,043)	(10,823)
	(19,842)	(18,315)

## 39 PRIVATE FINANCE INITIATIVES AND SIMILAR CONTRACTS

The Council is party to two Private Finance Initiative (PFI) schemes in respect of the design, construction, maintenance and servicing of 28 schools - the Mulberry and Group Schools schemes - until the year 2029. Prior to 2009-10 the assets involved were treated as "off balance sheet" in accordance with relevant accounting standards. SORP 2009 requires that the schemes are now accounted for under International Financial Reporting Standards and that the position as at 31 March 2009 is restated. The assets are now included on the Council's Balance Sheet, matched by a finance lease liability.

A third PFI contract was entered into in relation to the Barkantine Estate Combined Heat and Power scheme. There are no unitary payments made under this scheme as it is classed as a user pay arrangement. An asset has been brought onto the balance sheet in 2010/11, matched by a deferred income balance.

Movement on PFI Assets	Mulberry School £'000	Grouped Schools £'000	Barkantine Energy £'000	Total £'000
<b>Asset value at 31 March 2010</b>	47,488	223,433	3,360	274,281
Depreciation	(989)	(4,655)	(203)	(5,847)
Enhancements	280	7,542	0	7,822
Revaluations	0	0	150	150
<b>Asset value at 31 March 2011</b>	<b>46,779</b>	<b>226,320</b>	<b>3,307</b>	<b>276,406</b>

Movement on PFI Liabilities	Mulberry School £'000	Group Schools £'000	Barkantine Energy £'000	Total £'000
<b>Liabilities at 31 March 2010</b>	7,452	31,526	3,361	42,339
Repayments	(183)	(187)	(198)	(568)
<b>Liabilities at 31 March 2011</b>	<b>7,269</b>	<b>31,339</b>	<b>3,163</b>	<b>41,771</b>

### Consisting of:

Long term liability	7,123	31,002	2,965	41,090
Short-term liability	146	337	198	681
<b>Asset value at 31 March 2011</b>	<b>7,269</b>	<b>31,339</b>	<b>3,163</b>	<b>41,771</b>

Payments due under PFI schemes	Mulberry School £'000	Group Schools £'000	Barkantine Energy £'000	Total £'000
<b>Liability</b>				
Within 1 year	146	337	198	681
Within 2 - 5 years	895	1,895	791	3,581
Within 6 - 10 years	1,646	5,526	988	8,160
Within 11 - 15 years	2,538	15,950	988	19,476
Within 16 - 19 years	2,044	7,631	198	9,873
	<b>7,269</b>	<b>31,339</b>	<b>3,163</b>	<b>41,771</b>

### Interest

Within 1 year	816	4,931	0	5,747
Within 2 - 5 years	3,058	19,092	0	22,150
Within 6 - 10 years	3,132	21,534	0	24,666
Within 11 - 15 years	2,093	14,408	0	16,501
Within 16 - 19 years	473	1,613	0	2,086
	<b>9,572</b>	<b>61,578</b>	<b>0</b>	<b>71,150</b>

### Service Charges

Within 1 year	673	3,321	0	3,994
Within 2 - 5 years	2,694	13,958	0	16,652
Within 6 - 10 years	3,367	13,331	0	16,698
Within 11 - 15 years	3,367	12,655	0	16,022
Within 16 - 19 years	2,020	3,742	0	5,762
	<b>12,121</b>	<b>47,007</b>	<b>0</b>	<b>59,128</b>

## 40 IMPAIRMENT LOSSES

Paragraph 4.7.4.2(1) of the Code requires disclosure by class of assets of the amounts for impairment losses and impairment reversals charged to the Surplus or Deficit on the Provision of Services and to Other Comprehensive Income and Expenditure. These disclosures are consolidated in Notes 13 and 14 reconciling the movement over the year in the Property, Plant and Equipment and Intangible Asset balances. An impairment review was carried out by qualified valuers at 31st March 2011 and concluded that there was no significant impairment to report.

## 41 CAPITALISATION OF BORROWING COSTS

Not applicable at present to current schemes

## 42 TRUST FUNDS

The Council acts as trustee for a number of Trust Funds, the principal ones being shown below. It should be noted that the Council's Balance Sheet does not include all Trust Fund assets and liabilities and so does not comply fully with relevant accounting standards, although the amounts involved are not material.

	Balance at 1/4/2009 £'000	2009/10 Expenditure £'000	2009/10 Income £'000	Balance at 31/3/2010 £'000	2010/11 Expenditure £'000	2010/11 Income £'000	Balance at 31/3/2010 £'000
(a) Welfare Savings	560	231	419	748	335	378	791
(b) King Bequest Fund	14	0	0	14	14	0	0
(c) Children's Trust Funds	3	6	6	3	0	0	3
(d) Social Services Trust Funds - sundry other	129	154	184	159	126	86	119
(e) Tower Hamlets Further Education Trust	872	3,093	2,918	697	98	15	614
(f) Globe Town Picture Fund	160	0	0	160	0	0	160
(g) Sundry Other	57	177	132	12	0	1	13
<b>TOTAL TRUST FUNDS</b>	<b>1,795</b>	<b>3,661</b>	<b>3,659</b>	<b>1,793</b>	<b>573</b>	<b>480</b>	<b>1,700</b>

- (a) This Fund represents monies held by Social Services residential establishments on behalf of residents in their care. It is used to finance the purchase of goods and services on behalf of residents.
- (b) This Fund was established with a legacy from the will of a former resident of the borough. The terms of the will restrict expenditure to
- (c) These Funds represent monies held and/or invested by the Council on behalf of children in care.
- (d) These Funds represent monies held by the Council on behalf of any residents of the borough (including those in private accommodation) who are unable to manage their own personal affairs.

The Council also holds a number of deposits relating to Trust Funds administered by the Council. The funds are held in an interest bearing account maintained by the Council. The account is excluded from the financial statements relating to the Council. The relevant Trusts and transactions during the financial year ended 31st March 2010 may be summarised as follows:

- (e) This was established by the Council in conjunction with Canary Wharf Limited with the objective of "the advancement of education and
- (f) This Fund was established with the proceeds of the sale of a painting by the Council.
- (g) Sundry Other includes funds representing a number of miscellaneous deposits.



## 43 PENSIONS SCHEMES - DEFINED BENEFIT

### Participation in pensions schemes

As part of the terms and conditions of employment of its employees, the Council offers retirement benefits. Although these benefits will not be payable until employees retire, the Council has a commitment to make the payments which needs to be disclosed at the time the employees earn their future entitlement.

The Council participates in three pensions schemes:

- The Local Government Pension Scheme (LGPS) administered by the Council
- The Local Government Pension Scheme, administered by the London Pensions Fund Authority
- The Teachers' Pension Scheme (TPS), administered by Capita Teachers' Pensions on behalf of the Department for Children, Schools and Families (DCSF).

The LGP schemes are funded defined benefit final salary schemes, meaning that the Council and employees pay contributions into a fund, calculated at a level intended to balance the pensions liabilities with investment assets.

The TPS is an unfunded defined benefit final salary scheme meaning that there are no investment assets built up to meet the pensions liabilities, and cash has to be generated to meet pensions payments as they eventually fall due. It does, however, use a notional fund as the basis for calculating the employers' contribution rate paid by local education authorities (LEAs) of which the Council is one. It is not possible for the Council to identify a share of the underlying liabilities in the scheme attributable to its own employees and it is therefore accounted for on the same basis as a defined contribution scheme. This means that contributions are included on the basis of the actual amount paid into the scheme.

### Transactions Relating to Retirement Benefits

The cost of LGPS retirement benefits is recognised in the Net Cost of Services when the benefits are earned by employees rather than when the benefits are eventually paid as pensions. However, the charge required to be made against Council Tax is based on the cash payable in the year. The real cost of retirement benefits is therefore reversed out in the Movement in Reserves Statement for the General Fund Balance. The following transactions have been made in the Comprehensive Income and Expenditure Account and Movement in Reserves Statement during the year:

	The Council		LPFA		Total	
	2010/2011	2009/2010	2010/2011	2009/2010	2010/2011	2009/2010
	£'000	£'000	£'000	£'000	£'000	£'000
<b>Comprehensive Income and Expenditure Account</b>						
<b>Net Cost of Services</b>						
Current service costs	28,439	15,143	469	342	28,908	15,485
Impact of settlements and curtailments	556	1,244	0	0	556	1,244
<b>Net Operating Expenditure</b>						0
Interest cost	70,887	58,544	3,117	3,175	74,004	61,719
Expected return on assets in the scheme	(181,720)	(37,036)	(6,959)	(1,540)	(188,679)	(38,576)
<b>Net Charge to the Comprehensive Income and Expenditure Account</b>	<b>(81,838)</b>	<b>37,895</b>	<b>(3,373)</b>	<b>1,977</b>	<b>(85,211)</b>	<b>39,872</b>
<b>Movement in Reserves Statement - General Fund Balance</b>						
Reversal of net charges made for retirement benefits in accordance with IAS 19	81,838	(37,895)	3,373	(1,977)	85,211	(39,872)
<b>Actual amount charged against the General Fund Balance for pensions in the year</b>	<b>35,119</b>	<b>35,104</b>	<b>940</b>	<b>1,013</b>	<b>36,059</b>	<b>36,117</b>

In 2010-11 the Council paid £14.754 million into the Teachers Pension Scheme, representing 14.1% of pensionable pay. The figures for 2009-10 were £14.261 million and 14.1% respectively. In addition, the Council is responsible for all pension payments and annual increases in respect of added years it has awarded. In 2010-11 this amounted to £0.105 million (£0.43 million in 2009-10).

In addition to the recognised gains and losses included in the Comprehensive Income and Expenditure Account, actuarial gains of £259.963 million (£415.603 million in 2009-10) were included in the Actuarial gains or losses on pension assets and liabilities within other comprehensive Income and expenditure on the face of the Comprehensive Income and Expenditure Account. The cumulative amount of actuarial losses recognised is £215.664 million.

\* The expected return on assets in the scheme includes a gain of £134.754 million relating to the change in Government pension increase policy from Retail Price Index to Consumer Price Index.

## 43 PENSION SCHEME (continued)

### Assets and Liabilities in Relation to Retirement Benefits

#### Reconciliation of present value of scheme

	The Council		LPFA		Total	
	2009/2010	2010/2011	2009/2010	2010/2011	2009/2010	2010/2011
	£'000	£'000	£'000	£'000	£'000	£'000
1st April	(815,900)	(1,457,968)	(47,051)	(67,502)	(862,951)	(1,525,470)
In-year adjustment to exclude/(incorporate) THH deficit	(35,865)	69,476	0	0	(35,865)	69,476
Current service cost	(15,143)	(28,439)	(342)	(469)	(15,485)	(28,908)
Interest cost	(58,544)	(70,887)	(3,175)	(3,117)	(61,719)	(74,004)
Contributions	(9,244)	(8,825)	(142)	(115)	(9,386)	(8,940)
Actuarial gains / (losses)	(554,372)	418,726	(19,369)	13,806	(573,741)	432,532
Benefits paid	32,344	35,490	2,577	3,229	34,921	38,719
Losses on curtailments	(1,244)	(556)	0	0	(1,244)	(556)
<b>31st March</b>	<b>(1,457,968)</b>	<b>(1,042,983)</b>	<b>(67,502)</b>	<b>(54,168)</b>	<b>(1,525,470)</b>	<b>(1,097,151)</b>

#### Reconciliation of fair value of the scheme assets (LGPS):

	The Council		LPFA		Total	
	2009/2010	2010/2011	2009/2010	2010/2011	2009/2010	2010/2011
	£'000	£'000	£'000	£'000	£'000	£'000
1st April	555,794	796,161	36,592	39,386	592,386	835,547
In-year adjustment to exclude/(incorporate) THH deficit	35,740	(50,245)	0	0	35,740	(50,245)
Expected rate of return	37,036	51,711	1,540	2,380	38,576	54,091
Actuarial (losses) / gains	155,587	(65,755)	2,676	8,543	158,263	(57,212)
Contributions						
Members	9,244	8,825	142	115	9,386	8,940
Employer	35,104	35,119	1,013	940	36,117	36,059
Benefits paid	(32,344)	(35,490)	(2,577)	(3,229)	(34,921)	(38,719)
<b>31st March</b>	<b>796,161</b>	<b>740,326</b>	<b>39,386</b>	<b>48,135</b>	<b>835,547</b>	<b>788,461</b>

The expected return on scheme assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the balance sheet date.

#### Scheme history

	2006/2007	2007/2008	2008/2009	2009/2010	2010/2011
	£'000	£'000	£'000	£'000	£'000
Present value of liabilities:					
The Council	(986,327)	(837,851)	(815,900)	(1,457,968)	(1,042,983)
LPFA	(54,198)	(48,839)	(47,051)	(67,502)	(54,168)
Fair value of assets					
The Council	692,748	661,906	555,794	796,161	740,326
LPFA	39,087	41,758	36,592	39,386	48,135
Deficit in the scheme					
The Council	(293,579)	(175,945)	(260,106)	(661,807)	(302,657)
LPFA	(15,111)	(7,081)	(10,459)	(28,116)	(6,033)
<b>Total deficit in the schemes</b>	<b>(308,690)</b>	<b>(183,026)</b>	<b>(270,565)</b>	<b>(689,923)</b>	<b>(308,690)</b>

The liabilities show the underlying commitments that the Council has in the long run to pay retirement benefits. Whilst the total deficit in the schemes of £670.7 million has a significant impact on the net worth of the Council as recorded in the balance sheet, statutory arrangements for funding the deficit mean that the financial position of the Council remains healthy - the deficit will be made good by increased contributions over the remaining working life of employees, as assessed by the schemes' actuary.

The contributions expected to be made by the Council in the year to 31st March 2012 are £34.649 million to the Council's scheme and £0.647 million to the LPFA scheme (per actuary's reports).

## 43 PENSION SCHEME (continued)

### Basis for estimating assets and liabilities

Liabilities have been assessed on an actuarial basis using the projected unit method - an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels etc. Both schemes have been assessed by Hymans Robertson, an independent firm of actuaries, based on the following main assumptions.

	The Council		LPFA	
	2009/2010	2010/2011	2009/2010	2010/2011
Long-term expected rate of return on assets in the scheme:				
Equity investments	7.8%	7.5%	7.3%	7.2%
Target return portfolio			5.0%	5.0%
Property	5.8%	5.5%		
Bonds	5.0%	4.9%		
Cashflow matching			4.5%	4.4%
Cash	4.8%	4.6%	3.0%	3.0%
Mortality assumptions:				
Longevity at 65 for current pensioners				
Men	20.8 years	21.8 years	21.0 years	19.8 years
Women	24.1 years	23.9 years	23.4 years	23.1 years
Longevity at 65 for future pensioners:				
Men	22.8 years	23.3 years	22.0 years	21.9 years
Women	26.2 years	26.5 years	24.2 years	25.0 years
Rate of inflation	3.8%	2.8%	3.9%	3.5%
Rate of increase in salaries	5.3%	5.1%	5.4%	4.5%
Rate of increase in pensions	3.8%	2.8%	3.9%	2.7%
Rate for discounting scheme liabilities	5.5%	5.5%	5.5%	5.5%
Take-up of option to convert annual pension into retirement lump sum	50%*	50%*		

\* Pre-April 2008 service - 75% for post-April 2008 service

### Major categories of assets as a proportion of total assets

The major categories of assets are as follows.

	The Council		LPFA	
	2009/2010	2010/2011	2009/2010	2010/2011
Equities	66%	67%	11%	12%
Bonds	22%	18%	0%	0%
Property	9%	11%	0%	0%
Cash	3%	4%	-3%	-1%
Cashflow matching	0%	0	38%	35%
Target return portfolio	0%	0	54%	54%

### History of experience gains and losses

The actuarial gains and losses identified as movements on the Pension Reserve in 2010-11 can be analysed into the following categories, measured as a percentage of assets or liabilities at 31st March 2011:

	2006-07	2007-08	2008-09	2009-10	2010-11
The Council	%	%	%	%	%
Experience gains and (losses) on assets	0.07	-14.34	-29.85	19.54	-8.88
Experience gains and (losses) on liabilities	0.00	-4.38	0.00	0.00	-27.68
London Pensions Fund Authority					
Experience gains and (losses) on assets	0.00	6.17	-15.90	6.79	17.75
Experience gains and (losses) on liabilities	0.29	-4.24	0.27	-0.78	-25.49



## **45 CONTINGENT LIABILITIES**

### **Housing Transfers to Registered Social Landlords**

Between March 1998 and March 2011 the Council transferred tenanted and leasehold properties to other landlords - 7,457 to Poplar Housing and Regeneration Community Association; 2,392 to Tower Hamlets Community Housing; 238 to Bethnal Green and Victoria Park Housing Association and 106 to Spitalfields Housing Association. The Council has given warranties to provide the funders of those landlords with a level of comfort in relation to their loans, which represents a potential liability to the Council. The amount of the potential liability cannot be determined with any certainty at present.

## HOUSING REVENUE ACCOUNT INCOME AND EXPENDITURE ACCOUNT

The Housing Revenue Account (HRA) deals with the provision and maintenance of council housing by the Council acting as Landlord. It also shows income from rents and Government grant. There is a statutory requirement to keep this account separate from other Council activities (including other housing activities).

	Note	2009/2010 £'000	2010/2011 £'000
<b>INCOME</b>			
Gross rental income			
Rents of dwellings		54,601	55,850
Non dwelling rents		2,614	3,406
Charges for services and facilities			
Heating and other charges		7,003	6,283
Leaseholder charges		11,283	9,918
HRA subsidy receivable	11		
General		2,374	1,216
Major Repairs Allowance		12,556	12,913
Reduction in Provision for Bad Debts		214	0
Contribution towards expenditure		115	115
<b>TOTAL INCOME</b>		<b>90,760</b>	<b>89,701</b>
<b>EXPENDITURE</b>			
Repairs, maintenance and management		24,315	21,488
Supervision and management		38,450	34,728
Rents, rates, taxes and other charges		2,749	2,535
Increase / (Decrease) in provision for bad debts		0	699
Depreciation of non-current assets	6		
On dwellings		12,556	12,913
On other assets		1,390	1,477
Revaluation losses (and reversals)		631	293,654
Revenue expenditure funded from capital under statute	13	6,403	7,676
Debt management costs		213	225
<b>TOTAL EXPENDITURE</b>		<b>86,707</b>	<b>375,395</b>
<b>NET COST OF HRA SERVICES AS INCLUDED IN THE WHOLE AUTHORITY INCOME AND EXPENDITURE ACCOUNT</b>		<b>(4,053)</b>	<b>285,694</b>
HRA services share of Corporate and Democratic Core		502	175
<b>NET COST OF HRA SERVICES</b>		<b>(3,551)</b>	<b>285,869</b>
<b>HRA share of operating income and expenditure included in the whole authority Income and Expenditure Account</b>			
Gain or loss on sale of HRA non-current assets		19,939	8,209
Unattached capital receipts		0	(237)
Capital grants and contributions		(14,435)	(10,889)
Interest payable		14,293	15,017
Interest and investment income		(192)	(96)
Pensions interest cost	7	5,714	4,124
Expected return on pension assets	7	(4,250)	(10,540)
<b>DEFICIT / (SURPLUS) FOR THE YEAR ON HRA SERVICES</b>		<b>17,518</b>	<b>291,457</b>

## STATEMENT OF MOVEMENT ON THE HOUSING REVENUE ACCOUNT BALANCE

The Housing Revenue Account (HRA) Income and Expenditure Account discloses the income received and expenditure incurred in providing council dwellings to tenants for the year. However, the Council is required to raise council rents based on the balance on the Statutory Housing Revenue Account.

This reconciliation statement summarises the differences between the outturn on the HRA Income and Expenditure Account and the balance on the Statutory HRA.

	Note	2009/2010 £'000	2010/2011 £'000
Deficit / (Surplus) for the year on the HRA Income and Expenditure Account		17,518	291,457
Net additional amount required by statute to be credited to the HRA balance for the year		(7,195)	(291,266)
Decrease (Increase) in the HRA Balance		<b>10,323</b>	<b>191</b>
Balance on the Statutory HRA Brought Forward		(23,301)	(12,978)
<b>Balance on the Statutory HRA Carried Forward</b>		<b>(12,978)</b>	<b>(12,787)</b>

# NOTES TO THE HOUSING REVENUE ACCOUNT INCOME AND EXPENDITURE ACCOUNT

## 1. NOTE TO THE STATEMENT OF MOVEMENT ON THE HRA BALANCE

	2009/2010 £'000	£'000	2010/2011 £'000	£'000
<b>Items included in the HRA Income and Expenditure Account but excluded from the movement on HRA balance for the year</b>				
Revenue expenditure funded from capital under statute	(6,403)		(7,676)	
Capital grants and contributions	14,435		10,889	
Gain or loss on sale of HRA non-current assets	(19,939)		(8,209)	
Unattached capital receipts	0		237	
Revaluation losses on non-current assets	(631)		(293,654)	
Transfer to / from the Major Repairs Reserve	(1,390)		(1,477)	
Difference between amounts charged to the Income & Expenditure Account for premiums and discounts and the charge for the year determined in accordance with statute	585		222	
Net charges made for retirement benefits in accordance with IAS19	(2,855)		8,454	
Transfers from General Fund (as directed by Secretary of State)	(714)	(16,912)	(406)	(291,620)
<b>Items not included in the HRA Income and Expenditure Account but included in the movement on HRA balance for the year</b>				
Employer's contributions payable to the Pension Fund and retirement benefits payable direct to pensioners	3,717		0	
Capital expenditure financed from revenue	6,000		335	
Other adjustments (transfer to capital receipts reserve)	0	9,717	19	354
<b>Net additional amount required by statute to be credited to the HRA Balance for the year</b>		<b>(7,195)</b>		<b>(291,266)</b>



## 2. HOUSING STOCK

The type and number of dwellings in the Council's housing stock at 31<sup>st</sup> March were as follows:

	2010	2011
Low-rise flats (1-2 storeys)	270	264
Medium-rise flats (3-5 storeys)	7,564	7,355
High-rise flats (6 or more storeys)	4,194	4,102
Houses and bungalows	799	788
<b>TOTAL AT 31<sup>st</sup> MARCH</b>	<b>12,827</b>	<b>12,509</b>

## 3. FIXED ASSETS

The balance sheet values of assets within the Council's HRA were as follows:

	2009/2010 £'000	2010/2011 £'000
Dwellings	920,784	637,909
Other Land and Buildings	65,812	57,970
Infrastructure and Community Assets	-	0
Surplus Assets Not Held for Sale	-	1,195
<b>TOTAL</b>	<b>986,596</b>	<b>697,074</b>

The balance sheet values of the land, houses and other property within the Housing Revenue Account are as follows:

	Dwellings £'000	Other land and buildings £'000	Infrastructure and Community £'000	Surplus Assets not held for sale £'000	TOTAL £'000
Total value at 1 <sup>st</sup> April 2009	901,291	71,737	152	0	973,180
Additions, disposals, transfers and revaluations	19,493	(5,925)	(152)	0	13,416
Total value at 31 <sup>st</sup> March 2010	920,784	65,812	0	0	986,596
Additions, disposals, transfers and revaluations	(282,875)	(7,842)	0	1,195	(289,522)
<b>TOTAL VALUE AT 31<sup>st</sup> MARCH 2011</b>	<b>637,909</b>	<b>57,970</b>	<b>0</b>	<b>1,195</b>	<b>697,074</b>

The vacant possession value of dwellings within the Council's HRA was £2,488 million in 2010/2011 (£2,391 million in 2009/2010). The difference between the vacant possession value and the balance sheet value shows the economic cost to the Government of providing council housing at less than open market rents.

The reduction in the value of dwellings is due in the main part to the social housing adjustment factor being reduced from 37% to 25% of vacant possession value. This was issued in updated guidance from the Department for Communities and Local Government during 2010/11.

## 4. MAJOR REPAIRS RESERVE

	2009/2010 £'000	2010/2011 £'000
<b>Balance at 1<sup>st</sup> April</b>	<b>2,354</b>	<b>1,074</b>
Transfer from Capital Adjustment Account - depreciation	12,891	14,390
Transfer to HRA - depreciation on non-dwellings	(335)	(1,477)
Financing of capital expenditure	(13,836)	(7,641)
<b>Balance at 31<sup>st</sup> March</b>	<b>1,074</b>	<b>6,346</b>

## 5. CAPITAL TRANSACTIONS

### (i) Capital expenditure and financing

	Dwellings £'000	2009/10 Other £'000	Total £'000	Dwellings £'000	2010/11 Other £'000	Total £'000
<b>Expenditure</b>	60,357	473	<b>60,830</b>	29,551	7,676	37,227
<b>Sources of finance</b>						
Borrowing	15,027	473	<b>15,500</b>	8,718	7,676	16,394
Capital Receipts	11,773		<b>11,773</b>	2,609		2,609
Capital Grants and Contributions	13,721		<b>13,721</b>	10,248		10,248
Major Repairs Reserve	13,836		<b>13,836</b>	7,641		7,641
Direct Revenue Financing	6,000		<b>6,000</b>	335		335
<b>TOTAL CAPITAL FINANCING</b>	<b>60,357</b>	<b>473</b>	<b>60,830</b>	<b>29,551</b>	<b>7,676</b>	<b>37,227</b>

### (ii) Capital Receipts

Capital receipts (gross) in 2010/11 from the disposal of fixed assets within the HRA amounted to £10.141 million (£1.34 million in 2009/10) as follows:

	2009/2010 £'000	2010/2011 £'000
Dwellings	1,178	9,334
Other land and buildings	162	807
<b>TOTAL CAPITAL RECEIPTS</b>	<b>1,340</b>	<b>10,141</b>

## 6. DEPRECIATION

The total depreciation charge for the year was £14.389 million (£13.946 million in 2009/2010), made up of £12.913 million (£12.556 million in 2009/10) in respect of council houses and £1.477 million (£1.390 million in 2009/10) in respect of other housing assets. In the case of council housing, assets have been depreciated by an amount equivalent to the Major Repairs Allowance, as this is the amount (based on a 30-year life cycle costing) which the Government estimates the Council needed to spend this year to keep the housing stock in its current state. It is therefore considered an appropriate measure of depreciation. An analysis of the depreciation charges is set out below.

	2009/2010 £'000	2010/2011 £'000
Dwellings	12,556	12,913
Other Land and Buildings	1,385	1,477
Infrastructure and Community Assets	0	0
Surplus Assets Not Held for Sale	5	0
<b>TOTAL DEPRECIATION</b>	<b>13,946</b>	<b>14,390</b>

## 7. PENSION COSTS

These figures represent the cost of pensions attributable to the HRA. Further details of the treatment of pensions costs are shown in note 43 of the Core Financial Statements, together with details of the assumptions made in calculating the figures included in this note. The following transactions have been made in the account for the year.

Income and Expenditure Account	The Council		LPFA		Total	
	2009/2010 £'000	2010/2011 £'000	2009/2010 £'000	2010/2011 £'000	2009/2010 £'000	2010/2011 £'000
<b>Net Cost of Services</b>						
Current service costs	1,419	19	6	4	1,425	23
<b>Net Operating Expenditure</b>						
Interest cost	5,660	4,096	54	28	5,714	4,124
Expected return on assets in the scheme	(4,224)	(2,988)	(26)	(22)	(4,250)	(3,010)
Past Service Costs	0	7,513	0	42	0	7,555
<b>Net Charge to the Income and Expenditure Account</b>	<b>2,855</b>	<b>8,640</b>	<b>34</b>	<b>52</b>	<b>2,889</b>	<b>8,692</b>
<b>Statement of Movement in the HRA Balance</b>						
Reversal of net charges made for retirement in accordance with IAS19	(2,855)	(8,640)	(34)	(52)	(2,889)	(8,692)
<b>Employer's contribution to scheme</b>	<b>1,845</b>	<b>1,897</b>	<b>7</b>	<b>3</b>	<b>1,852</b>	<b>1,900</b>

## 8. RENT ARREARS

	2009/2010 £'000	2010/2011 £'000
Gross rent arrears at 31 <sup>st</sup> March	3,197	3,000
Arrears as % of rent receivable	5.9	5.4
Provision made for bad debts	2,631	2,231

## 9. TRANSFERS FROM GENERAL FUND (AS DIRECTED BY SECRETARY OF STATE)

Government. The £0.4 million transferred during 2010/11 relates to "Supporting People" services provided by the Council (£0.7 million in 2009/10).

## 10. AMORTISED PREMIUMS AND DISCOUNTS

This relates to premiums payable on the premature redemption of housing debt prior to 2006-07. The accounting treatment of those amounts has been reviewed and amended retrospectively which results in a charge to the Income and Expenditure Account. The charge is reversed out in the Statement of Movement in the HRA balance, resulting in no change in the balance available.

## 11 HOUSING REVENUE ACCOUNT SUBSIDY ENTITLEMENT

	2009/2010 £'000	2010/2011 £'000
Management & Maintenance Allowances	34,930	36,151
Major Repairs Allowance	12,556	12,913
Charges for capital	21,364	21,655
Other Allowances	17	17
Guide Line Rent Income	(53,671)	(55,799)
Interest on Receipts	(40)	(23)
Prior Year Adjustment	(226)	(785)
<b>TOTAL HOUSING REVENUE ACCOUNT SUBSIDY</b>	<b>14,930</b>	<b>14,129</b>

## 12 IMPAIRMENT OF FIXED ASSETS

There has been no impairment of HRA land, houses and other property in 2010/11 as confirmed in an impairment review conducted by qualified valuers as at the 31st March 2011.

However, there have been revaluation losses totalling £287.576 million on HRA assets, due in the main part to a change in the social housing adjustment factor which has reduced from 37% to 25% of vacant possession value of dwellings.

## 13 REVENUE EXPENDITURE FUNDED FROM CAPITAL UNDER STATUTE

£7.676 million of this amount is in respect of major works to leaseholders' properties, expenditure on which is in respect of third party capital assets and is reimbursable. This is a change in practice compared with previous years, when such expenditure was treated as affecting Council-owned assets. The change is in accordance with proper accounting principles. The comparable figure for 2009/10 was £5.93 million.

## 14 ITEM 8 INTEREST ADJUSTMENT

Capital works on non-current assets within the authority's HRA are partly funded by borrowing. The total interest cost of borrowing is allocated between HRA and General Fund in accordance with the Item 8 Credit and Item 8 Debit (General) Determination for the year, as specified in Schedule 4 of the Local Government and Housing Act 1989. These are included within the interest figures shown on the HRA Income and Expenditure Account.

## COLLECTION FUND

	Note	2009/2010 £'000	2009/2010 £'000	2010/2011 £'000	2010/2011 £'000
<b>INCOME</b>					
Council Tax (net of benefits)	2	70,561		74,605	
Transfers from General Fund - Council Tax Benefits		<u>28,995</u>	99,556	<u>30,331</u>	104,936
Distribution of prior year deficit on Collection Fund			2716		0
National Non-Domestic Rates	3		287,443		273,462
Reduction in provision for bad debts	5		0		0
<b>TOTAL INCOME</b>			<b>389,715</b>		<b>378,398</b>
<b>EXPENDITURE</b>					
Precepts and demands					
London Borough of Tower Hamlets		71,110		74,687	
Greater London Authority		<u>24,879</u>	95,989	<u>26,131</u>	100,818
Distribution of prior year surplus on Collection Fund			0		4,695
National Non-Domestic Rates					
Payment to National Pool		286,489		272,435	
Cost of collection allowance		<u>954</u>	287,443	<u>1,027</u>	273,462
Increase in provision for bad debts	5		210		433
<b>TOTAL EXPENDITURE</b>			<b>383,642</b>		<b>379,408</b>
<b>INCREASE/(DECREASE) IN FUND BALANCE</b>			<b>6,073</b>		<b>(1,010)</b>
<b>COLLECTION FUND BALANCE</b>					
Balance at the beginning of the year			(810)		5,263
(Deficit)/Surplus for the year			6,073		(1,010)
<b>BALANCE AT END OF YEAR</b>	1		<b>5,263</b>		<b>4,253</b>

## NOTES TO THE COLLECTION FUND

# NOTES TO THE COLLECTION FUND

## 1. GENERAL

The Collection Fund accounts for all transactions in respect of Council Tax and National Non-Domestic Rates (also known as NNDR or Business Rates) and Community Charge (prior to 1st April 1993). Although the account is kept separate from the Income and Expenditure Account, the Collection Fund balance is included in the Council's Balance Sheet.

The surplus on the Fund (£4,252,411) is attributable to the Council (£3,153,677) and the Greater London Authority (£1,098,632). The latter amount is carried as a creditor in the Council's Balance Sheet.

## 2. COUNCIL TAX

Council Tax is a tax payable depending on the nature and degree of occupation of the residential property concerned. It is subject to a system of personal discounts. For the purpose of calculating the individual tax, all domestic properties were valued by are calculated by the Inland Revenue as at 1st April 1991 and placed in one of eight bands. By law the tax for each Band is set as a fraction of Band D.

Band	Market Value in April 1991	Fraction of Band D
A	Up to £40,000	6/9
B	Over £40,000 and up to £52,000	7/9
C	Over £52,000 and up to £68,000	8/9
D	Over £68,000 and up to £88,000	9/9
E	Over £88,000 and up to £120,000	11/9
F	Over £120,000 and up to £160,000	13/9
G	Over £160,000 and up to £320,000	15/9
H	Over £320,000	18/9

By multiplying the number of properties in each band (after allowing for discounts, exemptions and non-collection) by the appropriate fraction the Council calculates the number of "Band D equivalent" properties in the borough (known as the Council Tax Base) and how much a Band D tax of £1 would produce. For 2010/11 this was £0.080 million (£0.080 million for 2009/10) allowing for a non-collection rate of 3.00% (3.00% in 2009/10).

When the 2010-11 Council Tax was set the position was as follows:

Band	2009/2010 No. of Properties	2009/2010 Council Tax Base	2010/2011 No. of Properties	2010/2011 Council Tax Base
A	1,385	730	1,650	740
B	24,427	15,900	25,300	15,956
C	31,246	24,523	33,800	25,386
D	16,736	15,594	19,800	16,235
E	12,868	14,053	15,400	15,252
F	6,113	7,802	7,600	8,636
G	2,447	3,528	3,200	4,087
H	390	657	425	659
<b>Total</b>	<b>95,612</b>	<b>82,787</b>	<b>107,175</b>	<b>86,951</b>

The Council Tax is made up of amounts for the Greater London Authority as well as the Council. The Band D tax and total amount to be raised in the last two years was as follows:

	2009/2010		2010/2011			
	Band D Tax	Amount to be raised	Band D Tax	Amount to be raised	Increase	%
	£	£'000	£	£'000	£	%
Tower Hamlets	885.52	71,110	885.52	74,687	0	0.00
Greater London Authority	309.82	24,879	309.82	26,131	0	0.00
<b>TOTAL</b>	<b>1,195.34</b>	<b>95,989</b>	<b>1,195.34</b>	<b>100,818</b>	<b>0</b>	<b>0.00</b>

### **3. NATIONAL NON-DOMESTIC RATES (NNDR)**

Under the arrangements for National Non-Domestic Rates the Council collects business rates for its area which it pays to the Government. The Government then redistributes the total NNDR back to local authorities on the basis of a fixed amount per head of population. NNDR due is calculated by multiplying a national uniform rate set by the Government by the rateable value of the property. The national uniform rate in 2010/11 was 41.4p in the £ (48.5p in the £ in 2009/10). The total rateable value in the borough as at 31 March 2011 was £817.1 million (£677.4 million at 31 March 2010). A periodic revaluation of business properties took place in April 2010.

### **4. ADJUSTMENTS FOR PRIOR YEARS' COMMUNITY CHARGE**

Although Council Tax replaced Community Charge on 1st April 1993 the Council continues to account for residual adjustments to the Community Charges raised in earlier years in the Collection Fund.

### **5. PROVISION FOR IRRECOVERABLE COUNCIL TAX DEBTS**

Contributions are made to or from the Collection Fund Income and Expenditure Account to a provision for bad debts. For 2010/11 the Council Tax bad debt provision was increased by £0.433 million (increased by £0.21 million in 2009/10) and £1.081 million of irrecoverable debts were written off (£1.767 million in 2009/10).

# GROUP ACCOUNTS

## 1 INTRODUCTION

The Council's Arms Length Management Organisation (ALMO), Tower Hamlets Homes Limited ("THH"), was incorporated on 16 May 2007 and commenced trading on 7 July 2008. It is a wholly owned subsidiary of the Council responsible for the management, maintenance and modernisation of the Council's housing stock. The stock remains in the ownership of the Council and rents are collected by THH.

THH is a private company limited by guarantee with no share capital. The composition of the board of the company and the associated voting rights are as follows.

	Number	Rights
Council nominees	5	5
Housing tenants and leasehold	5	5
Independent	5	5
Total	15	15

It should be noted that, although Board members have voting rights at Board meetings, the Council is the sole member of the company and therefore has 100% of the voting rights at the company's Annual General Meeting.

The Council undertakes, in the event of the company's being wound up, to contribute such amounts as may be required for the payment of the debts and liabilities of the company, provided this does not exceed £1. After the satisfaction of all the debts and liabilities, the remaining assets would revert to the Council. THH is an admitted body to the Council's local government pension fund. The full pension obligation and related deficit together with current and past services costs for THH employees passed to the company when it began trading. Should THH cease trading then the full pension obligation and related deficit or surplus would pass back to the Council as an integral part of the general business transfer.

The Council has determined that Group Accounts, showing the consolidated financial activities and financial position of the Council as a "single entity" and THH, need to be prepared since the 2008/09 financial year. The consolidation has been carried out in accordance with the acquisition basis of accounting - the service was externalised at fair value and did not result in an adjustment for goodwill. The income and expenditure of THH for the year are included in the Group Income and Expenditure Account and its assets and liabilities at 31 March 2011 in the Group Balance Sheet.

A copy of THH's accounts is available from the company's registered office at:

Tower Hamlets Homes Limited  
Jack Dash House, 2 Lawn Close, London E14 9YQ

or from Companies House, Cardiff

The accounts are subject to approval and adoption at the Annual General Meeting; and the formal issuing of the auditors' report

THH's appointed auditors are:

KPMG LLP  
2 Cornwall Street  
Birmingham  
B3 2DL

## GROUP MOVEMENT IN RESERVES STATEMENT

	NOTES	USABLE RESERVES									UNUSABLE	
		GENERAL FUND BALANCE £'000	earmarked GENERAL FUND RESERVES* £'000	HOUSING REVENUE ACCOUNT BALANCE £'000	MAJOR REPAIRS RESERVE £'000	CAPITAL RECEIPTS RESERVE £'000	DEFERRED CAPITAL RECEIPTS £'000	CAPITAL GRANTS UNAPPLIED £'000	INCOME EXPENDITURE RESERVE £'000	TOTAL USABLE RESERVES £'000	TOTAL UNUSABLE RESERVES £'000	
<b>Balance as at 31 March 2009</b>		27,102	115,033	23,301	2,354	18,091	412	14,429	1,376	<b>202,098</b>	<b>1,302,637</b>	<b>1,504,735</b>
<b><u>Movement in reserves during 2009/10</u></b>												
Surplus or (Deficit) on the Provision of Services		(2,519)		(17,518)					(1,322)	<b>(21,359)</b>	<b>0</b>	<b>(21,359)</b>
Other comprehensive expenditure and income									402	<b>402</b>	<b>(378,965)</b>	<b>(378,563)</b>
<b>Total Comprehensive Expenditure and Income</b>		<b>(2,519)</b>	<b>0</b>	<b>(17,518)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(920)</b>	<b>(20,957)</b>	<b>(378,965)</b>	<b>(399,922)</b>
Adjustments between accounting basis and funding basis under regulations	6	(8,429)	0	7,195	(1,280)	(1,781)	(114)	2,070		<b>(2,339)</b>	<b>2,339</b>	<b>0</b>
<b>Net Increase or Decrease before Transfers to Earmarked Reserves</b>		<b>(10,948)</b>	<b>0</b>	<b>(10,323)</b>	<b>(1,280)</b>	<b>(1,781)</b>	<b>(114)</b>	<b>2,070</b>	<b>(920)</b>	<b>(23,296)</b>	<b>(376,626)</b>	<b>(399,922)</b>
Transfers to or from earmarked reserves	7	10,979	(10,979)						0	<b>0</b>	<b>0</b>	<b>0</b>
<b>Increase or (Decrease) in 2009/10</b>		<b>31</b>	<b>(10,979)</b>	<b>(10,323)</b>	<b>(1,280)</b>	<b>(1,781)</b>	<b>(114)</b>	<b>2,070</b>	<b>(920)</b>	<b>(23,296)</b>	<b>(376,626)</b>	<b>(399,922)</b>
<b>Balance as at 31 March 2010 carried forward</b>		<b>27,133</b>	<b>104,054</b>	<b>12,978</b>	<b>1,074</b>	<b>16,310</b>	<b>298</b>	<b>16,499</b>	<b>456</b>	<b>178,802</b>	<b>926,011</b>	<b>1,104,813</b>
<b><u>Movement in reserves during 2010/11</u></b>												
Surplus or (Deficit) on the Provision of Services		163,714	0	(291,457)					(134)	<b>(127,877)</b>	<b>0</b>	<b>(127,877)</b>
Other comprehensive expenditure and income										<b>0</b>	<b>298,475</b>	<b>298,475</b>
<b>Total Comprehensive Expenditure and Income</b>		<b>163,714</b>	<b>0</b>	<b>(291,457)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(134)</b>	<b>(127,877)</b>	<b>298,475</b>	<b>170,598</b>
Adjustments between accounting basis and funding basis under regulations	6	(162,168)	0	291,266	5,271	8,115	(57)	3,251	168	<b>145,846</b>	<b>(145,678)</b>	<b>168</b>
<b>Net Increase or Decrease before Transfers to Earmarked Reserves</b>		<b>1,546</b>	<b>0</b>	<b>(191)</b>	<b>5,271</b>	<b>8,115</b>	<b>(57)</b>	<b>3,251</b>	<b>34</b>	<b>17,969</b>	<b>152,797</b>	<b>170,766</b>
Transfers to or from earmarked reserves	7	(1,042)	1,042							<b>0</b>	<b>0</b>	<b>0</b>
Transfers to or from school reserves		(4,258)	4,258									
<b>Increase or (Decrease) in Year</b>		<b>(3,754)</b>	<b>5,300</b>	<b>(191)</b>	<b>5,271</b>	<b>8,115</b>	<b>(57)</b>	<b>3,251</b>	<b>34</b>	<b>17,969</b>	<b>152,797</b>	<b>170,766</b>
<b>Balance as at 31 March 2011</b>		<b>23,379</b>	<b>109,354</b>	<b>12,787</b>	<b>6,345</b>	<b>24,425</b>	<b>241</b>	<b>19,750</b>	<b>490</b>	<b>196,771</b>	<b>1,078,808</b>	<b>1,275,579</b>



## GROUP COMPREHENSIVE INCOME AND EXPENDITURE ACCOUNT

Gross Expenditure	2009/10		Note	2010/11		
	Gross Income	Net Expenditure		Gross Expenditure	Gross Income	Net Expenditure
£'000	£'000	£'000		£'000	£'000	£'000
<b>Continuing Operations</b>						
141,060	40,399	100,661	Cultural, Environmental, Regulatory and Planning Services	117,491	31,365	86,126
85,970	75,838	10,132	Central Services	48,533	38,027	10,506
508,330	408,073	100,257	Children's and Education Services	514,007	416,818	97,189
26,995	21,444	5,551	Highways and Transport Services	29,927	19,449	10,478
86,707	90,760	(4,053)	Local Authority Housing (Housing Revenue Account)	375,407	91,586	283,821
284,946	274,338	10,608	Other Housing Services	295,572	272,252	23,320
112,615	16,249	96,366	Adult Social Care	121,500	27,165	94,335
10,472	4,769	5,703	Corporate and Democratic Core	12,281	1,118	11,163
17,825	1	17,824	Non-distributed Costs	15,757	0	15,757
<b>1,274,920</b>	<b>931,871</b>	<b>343,049</b>	<b>NET COST OF SERVICES</b>	<b>1,530,475</b>	<b>897,780</b>	<b>632,695</b>
		36,543	Other Operating Expenditure			18,202
		49,209	Financing and Investment Income and Expenditure			(87,229)
		14	Surplus or deficit of trading operations			(98)
		(408,778)	Taxation and Non-Specific Grant Income			(435,698)
		0	Corporation Tax			5
		<b>20,037</b>	<b>(SURPLUS) OR DEFICIT ON THE PROVISION OF SERVICES</b>			<b>127,877</b>
			<b>Other Comprehensive Income and Expenditure</b>			
		(36,638)	Surplus on revaluation of non-current assets			(31,761)
		415,603	Actuarial (gains) or losses on pension assets and liabilities			(266,883)
		<b>378,965</b>	<b>OTHER COMPREHENSIVE INCOME AND EXPENDITURE</b>			<b>(298,644)</b>
<b>399,002 TOTAL COMPREHENSIVE INCOME AND EXPENDITURE</b>						<b>(170,767)</b>

# GROUP BALANCE SHEET

This statement shows the Group's balances and reserves and its long term indebtedness, and the fixed assets and net current assets employed in its operations as at 31st March 2011.

1 April 2009 £'000	31 March 2010 £'000		Notes	31 March 2011 £'000
		<b>Long-term Assets</b>		
2,055,689	2,109,675	Property, plant and equipment	<a href="#">11</a>	1,896,850
855	1,067	Long Term Debtors	<a href="#">13</a>	1,008
<b>2,056,544</b>	<b>2,110,742</b>	<b>Total Long-term assets</b>		<b>1,897,858</b>
		<b>Current Assets</b>		
14,267	40,818	Short-term investments	<a href="#">14</a>	138,529
345	531	Inventories	<a href="#">15</a>	821
79,402	88,663	Short-term debtors	<a href="#">18</a>	86,825
95,462	82,723	Cash and cash equivalents	<a href="#">19</a>	101,771
<b>189,476</b>	<b>212,735</b>	<b>Total Current Assets</b>		<b>327,946</b>
		<b>Current liabilities</b>		
0	0	Cash and cash equivalents	<a href="#">19</a>	0
13,600	15,324	Short-term borrowing	<a href="#">14</a>	35,485
90,549	97,384	Short-term creditors	<a href="#">21</a>	129,697
475	1,003	Provisions	<a href="#">22</a>	855
3,762	4,207	Provisions for accumulated absences		4,418
<b>108,386</b>	<b>117,918</b>	<b>Total Current liabilities</b>		<b>170,455</b>
		<b>Long Term Liabilities</b>		
8,085	10,213	Provisions	<a href="#">22</a>	12,014
251,785	302,475	Long-term borrowing	<a href="#">14</a>	325,533
270,690	689,924	Liability related to defined benefit pension schemes		301,939
52,819	50,030	Capital grants receipts in advance	<a href="#">35</a>	90,474
38,637	38,287	Deferred liabilities	<a href="#">39</a>	41,090
11,006	9,817	Deferred Income - Receipt in Advance		8,717
<b>633,022</b>	<b>1,100,746</b>	<b>Total Long-Term Liabilities</b>		<b>779,767</b>
<b>1,504,612</b>	<b>1,104,813</b>	<b>NET ASSETS</b>		<b>1,275,582</b>
		<b>Reserves</b>		
		<b>Usable Reserves</b>		
27,102	27,134	General Fund		23,380
23,301	12,978	Housing Revenue Account		12,786
94,497	84,942	Earmarked reserves		85,984
20,536	19,111	Schools reserves		23,370
18,091	16,309	Capital receipts reserve		24,424
412	298	Deferred capital receipts		241
14,429	16,500	Capital grants unapplied		19,751
2,354	1,074	Major repairs reserve		6,346
1,376	456	Income & Expenditure Reserve		490
<b>202,098</b>	<b>178,802</b>	<b>Total Usable Reserves</b>		<b>196,772</b>
		<b>Unusable Reserves</b>	<a href="#">24</a>	
486,712	509,897	Revaluation Reserve		528,722
1,090,570	1,105,580	Capital Adjustment Account		852,406
0	0	Collection Fund		0
(597)	3,902	Collection Fund Adjustment Account		3,154
280	764	Financial Instruments Adjustment Account		885
(270,690)	(689,924)	Pensions reserve		(301,939)
(3,761)	(4,208)	Accumulated Absences Account		(4,418)
<b>1,302,514</b>	<b>926,011</b>	<b>Total Unusable Reserves</b>		<b>1,078,810</b>
<b>1,504,612</b>	<b>1,104,813</b>	<b>TOTAL RESERVES</b>		<b>1,275,582</b>

## GROUP CASH FLOW STATEMENT

2009/10		Notes	2010/11
£'000			£'000
(21,102)	Net surplus or (deficit) on the provision of services		(127,877)
96,742	Adjustments to net surplus or deficit on the provision of services for non cash movements	<a href="#">1</a>	274,316
(64,346)	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	<a href="#">1</a>	(119,569)
<b>11,294</b>	<b>Net cash flows from Operating Activities</b>		<b>26,870</b>
(76,273)	Investing Activities	<a href="#">3</a>	(50,722)
52,241	Financing Activities	<a href="#">4</a>	42,900
<b>(12,738)</b>	<b>Net increase or decrease in cash and cash equivalents</b>		<b>19,048</b>
95,462	Cash and cash equivalents at the beginning of the reporting period		82,723
<b>82,724</b>	Cash and cash equivalents at the end of the reporting period		<b>101,771</b>

# NOTES TO THE GROUP ACCOUNTS

## 1 NOTE A TO THE CASH FLOW STATEMENT

2009/10 £'000		2010/11 £'000
(21,102)	<b>Net Surplus or (Deficit) on the Provision of Services</b>	<b>(127,877)</b>
	<b><u>Adjust net surplus or (deficit) on the provision of services for non cash movements</u></b>	
45,188	Depreciation	38,121
12,492	Impairment and downward valuations	293,778
1,374	Amortisation	836
(484)	Adjustments for effective interest rates	120
(451)	Increase/Decrease in Interest Creditors	241
(5,042)	Increase/Decrease in Creditors	28,082
72	Increase/Decrease in Interest and Dividend Debtors	(111)
(7,626)	Increase/Decrease in Debtors	2,493
(186)	Increase/Decrease in Inventories	(290)
3,901	Pension Liability	(121,129)
2,656	Contributions to/(from) Provisions	1,653
448	Provision for Equal Pay	211
44,400	Carrying amount of non-current assets sold (property, plant and equipment, investment property and intangible assets)	30,311
<b>96,742</b>		<b>274,316</b>
	<b><u>Adjust for items included in the net surplus or deficit on the provision of services that are investing or financing activities</u></b>	
(63,017)	Capital Grants credited to surplus or deficit on the provision of services	(105,700)
(1,329)	Proceeds from the sale of property plant and equipment, investment property and intangible assets	(13,869)
<b>(64,346)</b>		<b>(119,569)</b>
<b>11,294</b>	<b>Net cash flows from operating activities</b>	<b>26,870</b>

## 2 CASH FLOW STATEMENT - OPERATING ACTIVITIES

The cash flows for operating activities include the following items:

2009/10 £'000		2010/11 £'000
1,385	Interest received	1,544
(27,830)	Interest paid	(28,043)
<b>(26,445)</b>		<b>(26,499)</b>

## 3 CASH FLOW STATEMENT - INVESTING ACTIVITIES

2009/10 £'000		2010/11 £'000
(119,919)	Purchase of property, plant and equipment, investment property and intangible assets	(111,038)
(7,080)	Purchase of short-term and long-term investments	(97,692)
(20,024)	Other payments for investing activities	(188)
1,382	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	13,457
69,368	Other receipts from investing activities	144,739
<b>(76,273)</b>	<b>Net cash flows from investing activities</b>	<b>(50,722)</b>

## 4 CASH FLOW STATEMENT - FINANCING ACTIVITIES

2009/10 £'000		2010/11 £'000
65,778	Cash receipts of short- and long-term borrowing	51,000
(278)	Billing Authorities - Council Tax and NNDR adjustments	282
(358)	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	(369)
(12,901)	Repayments of short- and long-term borrowing	(8,013)
<b>52,241</b>	<b>Net cash flows from financing activities</b>	<b>42,900</b>

## 5 INCOME AND EXPENDITURE ACCOUNT

The following Tower Hamlets Homes transactions are included in the Group Income and Expenditure Account:

	2010/11 £'000	2009/10 £'000
Operating (profit) / loss	12	1,075
Interest payable		
Interest receivable	(24)	(11)
Pensions interest cost	141	256
Corporation tax	5	2
<b>Total</b>	<b>134</b>	<b>1,322</b>

## 6 BALANCE SHEET

The Group Balance Sheet reflects the following consolidated balances after eliminating intra-group transactions (transactions between Tower Hamlets Homes and the Council).

	The Council		THH		TOTAL	
	2010/11	2009/2010	2010/11	2009/2010	2010/11	2009/2010
	£'000	£'000	£'000	£'000	£'000	£'000
Fixed assets - equipment	8,225	4,456	297	255	8,522	4,711
Stock and work in progress	821	531	0	0	821	531
Debtors	87,331	88,620	(506)	696	86,825	89,316
Cash	98,963	37,010	2,808	1,023	101,771	38,033
Creditors	127,588	96,519	2,109	865	129,697	97,384
Pensions liability	308,691	670,693	(6,752)	19,231	301,939	689,924
Pension reserve	(308,691)	(670,693)	6,752	(19,231)	(301,939)	(689,924)
Income and Expenditure Reserve	0	0	490	456	490	456

## PENSION FUND ACCOUNTS

	Note	2009/2010 £'000	2010/2011 £'000
<b>FUND ACCOUNT</b>			
<b>DEALINGS WITH MEMBERS, EMPLOYERS AND OTHERS DIRECTLY INVOLVED IN THE SCHEME</b>			
<b>Contributions</b>			
From employers	3	38,455	39,659
From members	3	9,612	10,266
<b>Transfers in</b>			
Individual transfers in from other schemes		6,214	7,704
<b>Benefits</b>			
Pensions	4	(28,510)	(29,407)
Lump sum benefits	4	(8,692)	(11,406)
<b>Payments to and on account of leavers</b>			
Refunds of contributions		(6)	(2)
State scheme premiums		6	(2)
Individual transfers out to other schemes		(6,692)	(5,167)
<b>Administrative expenses</b>	14	(1,075)	(1,003)
<b>NET ADDITIONS FROM DEALINGS WITH MEMBERS</b>		<b>9,312</b>	<b>10,642</b>
<b>RETURN ON INVESTMENTS</b>			
		2009/2010 £'000	2010/2011 £'000
Investment income	11	14,527	10,562
Change in market value of investments			
Realised		3,999	70,468
Unrealised	10	164,201	(29,888)
Investment management expenses	15	(1,871)	(2,118)
<b>NET RETURN ON INVESTMENTS</b>		<b>180,856</b>	<b>49,024</b>
Net increase in the Fund during the year		190,168	59,666
Add: Opening net assets of the scheme		562,333	752,501
<b>CLOSING NET ASSETS OF THE SCHEME</b>		<b>752,501</b>	<b>812,167</b>
<b>NET ASSETS STATEMENT AS AT 31ST MARCH</b>			
		2010 £'000	2011 £'000
<b>Investments Assets</b>			
Fixed interest securities			
Public sector		40,659	0
Other		1,071	0
Equities		337,215	180,091
Index linked securities			
Public sector		49,898	0
Pooled Investment Vehicles			
Unit Trusts		222,597	452,951
Property		73,458	86,158
Other		0	79,839
Derivative Contracts			
Forward Foreign Exchange Contracts		774	292
	10	<b>725,672</b>	<b>799,331</b>
Cash deposits	6	19,606	9,362
Other investment balances	5	4,213	1,096
<b>Investments Liabilities</b>			
Forward Foreign Exchange Contracts	10	0	(699)
Other investment balances	5	(2,116)	0
<b>Current Assets</b>	5	5,851	4,385
<b>Current Liabilities</b>	5	(725)	(1,308)
<b>TOTAL NET ASSETS</b>		<b>752,501</b>	<b>812,167</b>

## NOTES TO THE PENSION FUND ACCOUNTS

### 1. INTRODUCTION

The Council is the administering authority for the Pension Fund and has executive responsibility for it. The Council delegates its responsibility for administering the Fund to the Pensions Committee which is responsible for considering all pension matters and discharging the obligations and duties of the Council under the Superannuation Act 1972 and other statutes relating to investment issues. The Committee meets quarterly to determine investment policy objectives, appoint investment managers, monitor investment performance and make representations to the Government on any proposed changes to the Local Government Pension Scheme. The Committee is required to obtain proper advice on the investment strategy of the Fund for which it has established an Investment Panel which includes professional investment advisors. The Panel meets quarterly to determine the general investment strategy, monitor the performance of the Fund and individual managers and consider technical reports on investment issues. The Fund employs eight specialist investment managers with mandates corresponding to the principal asset classes.

The day to day administration of the Fund and the operation of the management arrangements and administration of the investment portfolio is delegated to the Corporate Director of Resources.

The Fund is operated as a funded, defined benefits scheme which provides for the payment of benefits to former employees of the London Borough of Tower Hamlets and those of bodies admitted to the Fund. These individuals are referred to as "members". The benefits include not only retirement pensions, but also widows' pensions, death grants and lump sum payments in certain circumstances. The Fund is financed by contributions from members, employers and from interest and dividend receipts and gains on the Fund's investments.

The objective of the Pension Fund's financial statements is to provide information about the financial position, performance and financial adaptability of the Fund. They show the results of the stewardship of management - that is the accountability of management for the resources entrusted to it - and the disposition of its assets at the period end.

### 2. ACCOUNTING POLICIES

#### (a) Accounts

The accounts summarise the transactions and net assets of the Pension Fund and comply in all material respects with Chapter 2 ("Recommended Accounting Practice") of the Statement of Recommended Practice (Financial Reports of Pensions Schemes) 2007.

#### (b) Basis of preparation

Except where otherwise stated, the accounts have been prepared on an accruals basis, that is income and expenditure are recognised as earned or incurred, not as received or paid.

(c) The financial statements of the Fund do not take account of liabilities to pay pensions and other benefits after 31st March 2011.

#### (d) Investments

Investments are shown in the Net Assets Statement at market value on the following bases.

(i) Listed securities are shown by reference to bid price at the close of business on 31st March 2011.

(ii) Pooled investment vehicles are valued at bid price, middle market price or single price at close of trading on 31st March 2011.

(iii) Property unit trusts are shown by reference to bid price at close of business on 31st March 2011.

(iv) The Fund does not hold any direct property holdings and therefore does not employ a separate property valuer.

(v) Investments designated in foreign currencies are valued in sterling at the exchange rates ruling on 31st March 2011.

(vi) Foreign exchange contracts are recognised in the net asset statement at their fair value. The amounts included in the accounts represent realised gains or losses on closed contracts and unrealised gains or losses on forward contracts.

#### (e) Management Expenses

Fund managers' fees are based mainly on a percentage of the value of the funds under their management, although part of the total fee is sometimes fixed.

### 3. CONTRIBUTIONS

Contributions represent the total amounts receivable from the employing authority in respect of its own contributions and those of its pensionable employees. Employees pay contributions based on the level of pay they receive, with contribution rates set between 5.5% and 7.5% dependent on pensionable pay. The employer's contributions are made at a rate determined by the Fund's Actuary necessary to maintain the Fund in a state of solvency, having regard to existing and future liabilities. The Primary Contribution Rate used during the financial year ending 31st March 2011 was 15.8%. Contributions shown in the revenue statement may be categorised as follows:-

	2009/2010	2010/2011
	£'000	£'000
Members normal contributions		
Council	8,551	9,246
Admitted bodies	295	257
Scheduled body	766	763
<b>Total members</b>	<b>9,612</b>	<b>10,266</b>
Employers		
Normal contributions		
Council	20,003	20,754
Admitted bodies	885	867
Scheduled body	1,872	1,845
Deficit funding contributions		
Council	13,050	13,624
Other contributions		
Council	2,645	2,569
<b>Total employers</b>	<b>38,455</b>	<b>39,659</b>
<b>Total contributions</b>	<b>48,067</b>	<b>49,925</b>

The Council is required to operate an Additional Voluntary Contributions (AVC) scheme for employees. In 2010/11 employees made contributions of £60,530.28 into the AVC Scheme not administered by the Council but provided by Aviva (Norwich Union) and £9,455.96 to Equitable Life. The contributions are not included in the Pension Fund Accounts in accordance with regulation 5(2)(c) of the Pension Scheme (Management and Investment of Funds) Regulations 1998 (SI 1998 N° 1831) but are deducted from salaries and remitted directly to the provider.

#### 4. BENEFITS, REFUNDS OF CONTRIBUTIONS AND TRANSFER VALUES

Benefits payable and refunds of contributions have been brought into the accounts on the basis of all valid claims approved during the year. Transfers out/in are those sums paid to, or received from, other pension schemes and relate to the period of previous pensionable employment. Transfer values are brought into the accounts on a cash basis. Benefits payable are analysed below.

	2009/2010			2010/2011			
	Council	Admitted	Scheduled	Council	Admitted	Scheduled	
	£'000	Bodies	Bodies	£'000	Bodies	Bodies	Total
		£'000	£'000	£'000	£'000	£'000	£'000
Pensions	(27,710)	(606)	(194)	(28,510)	(28,428)	(688)	(29,407)
Lump sum retirement benefits	(6,481)	(387)	(921)	(7,789)	(9,909)	(483)	(10,656)
Lump sum death benefits	(903)	0	0	(903)	(750)	0	(750)
<b>Total</b>	<b>(35,094)</b>	<b>(993)</b>	<b>(1,115)</b>	<b>(37,202)</b>	<b>(39,087)</b>	<b>(1,171)</b>	<b>(40,813)</b>

#### 5. DEBTORS AND CREDITORS

Unless otherwise stated, all transactions are accounted for on an accruals basis. The following amounts were debtors or creditors of the Pension Fund as at 31st March .

	2009/2010	2010/2011
	£'000	£'000
<b>Debtors</b>		
<b>Other Investment Balances</b>		
Investment sales	2,316	0
Dividends receivable	1,187	656
Tax recoverable	306	440
Interest receivable	404	0
	<u>4,213</u>	<u>1,096</u>
<b>Current Assets</b>		
Employers' contributions due from admitted bodies	74	22
London Borough of Tower Hamlets	<u>5,777</u>	<u>4,363</u>
	<u>5,851</u>	<u>4,385</u>
<b>Total Debtors</b>	<u>10,064</u>	<u>5,481</u>
<b>Creditors</b>		
<b>Other Investment Balances</b>		
Investment purchases	<u>2,116</u>	<u>0</u>
<b>Current Liabilities</b>		
Unpaid benefits	187	922
Administrative expenses	<u>538</u>	<u>386</u>
	<u>725</u>	<u>1,308</u>
<b>Total Creditors</b>	<u>2,841</u>	<u>1,308</u>
<b>Net Debtors</b>	<u>7,223</u>	<u>4,173</u>

#### 6. CASH

The deposits held by fund managers can be further analysed as follows:

	2009/2010	2010/2011
	£'000	£'000
GMO UK	2,732	3,413
Aberdeen: Fixed Interest Portfolio	2,388	0
Aberdeen: Private Equity Portfolio	74	10
Aberdeen: UK Equities	2,349	0
Schroders: Multi Asset Portfolio	0	8
Schroders: Property Portfolio	11,227	5,930
Martin Currie	835	0
Merrill Lynch	1	0
Ruffer	0	1
<b>TOTAL CASH</b>	<b>19,606</b>	<b>9,362</b>



## 7. TAXATION

### UK Income Tax

Investment income is subject to UK tax which the Fund cannot recover under current tax legislation, except for tax deducted at source from Property unit trusts.

### Value Added Tax

By virtue of Tower Hamlets Council being the Administering Authority, VAT input tax is recoverable on all Fund activities.

### Overseas Tax

Taxation agreements exist between the UK and certain other European countries whereby a proportion of the tax deducted locally from investment earnings may be reclaimed. The proportion reclaimable and the timescale involved varies from country to

## 8. MEMBERSHIP OF THE FUND

The following table sets out the membership of the Fund at 31st March

	2010	2011
<b>London Borough of Tower Hamlets</b>		
Active Members	5,190	5,219
Pensioners	3,724	3,779
Deferred Pensioners	5,074	5,338
	<b>13,988</b>	<b>14,336</b>
<b>Admitted &amp; Scheduled Bodies</b>		
Active Members	479	467
Pensioners	107	135
Deferred Pensioners	245	263
	<b>831</b>	<b>865</b>

The following bodies have been admitted into the Fund:

#### Admitted Bodies

Tower Hamlets Community Housing  
 Redbridge Community Housing Ltd.  
 East End Homes  
 Greenwich Leisure Limited  
 Swan Housing Association  
 Gateway Housing Association (formerly Bethnal Green and Victoria Park Housing Association)  
 One Housing Group (formerly Island Homes)  
 Circle Anglia Ltd.  
 Look Ahead Housing and Care  
 Ecovert FM Ltd.

#### Scheduled Body

Tower Hamlets Homes Limited is a scheduled body contributing to the Fund.

## 9. STATEMENT OF INVESTMENT PRINCIPLES

The Council, as the Administering Authority of the Pension Fund, is required to prepare, maintain and publish a Statement of Investment Principles (SIP) in accordance with the Local Authority Pension Scheme (Management and Investment of Funds) (Amendment) Regulations 1999. The SIP is published as part of the Local Government Pensions Scheme Annual Report which will be submitted to the Council's Pensions Committee on 17<sup>th</sup> November 2011.

## 10. INVESTMENTS

The Fund employs eight specialist investment managers with mandates corresponding to the principal asset classes.

### Manager

GMO UK Ltd.  
 Schroders Asset Management Property Fund  
 Legal & General Investment Management  
 Investec Asset Management  
 Baillie Gifford Life Ltd.  
 Ruffer LLP  
 Auriel Capital Management  
 Record Currency Management

### Mandate

Global Equity  
 Property  
 UK Equity, Index Linked Gilts  
 Absolute Return Bonds  
 Global Equity, Diversified Growth  
 Diversified Growth  
 Currency  
 Currency

## 10. INVESTMENTS (Continued)

The value of the Fund, by manager, as at 31st March was as follows.

	2010		2011	
	£ million	%	£ million	%
GMO UK Ltd.	198.6	26.6	204.7	25.3
Schroders Asset Management Property Fund	84.9	11.4	90.2	11.1
Baillee Gifford Life Ltd - Equities	132.6	17.7	135.0	16.7
Baillee Gifford Life Ltd - Diversified Growth	0.0	0.0	40.2	5.0
Investec Asset Management	0.0	0.0	97.8	12.1
Legal & General Investment Management	0.0	0.0	201.6	24.9
Ruffer LLP	0.0	0.0	39.6	4.9
Martin Currie Investment Management *	95.3	12.8	0.0	0.0
Aberdeen Asset Management - Bonds *	148.6	19.9	0.0	0.0
Aberdeen Asset Management - Equities *	70.6	9.4	0.0	0.0
Auriel Capital Management **	9.9	1.3	0.0	0.0
Record Currency Management **	6.7	0.9	0.0	0.0

\* Funds have been disinvested from these managers following a change of investment strategy and their asset allocation transferred to Legal & General and Investec.

\*\* The currency manager funds have been temporarily withdrawn following decision to reduce exposure to currency instruments owing to current market conditions.

The movement in the opening and closing value of investments during the year, together with related direct transaction costs, were as follows.

	Market Value as at 1 Apr 2010 £'000	Purchases £'000	Sales £'000	Change in Market Value £'000	Market Value as at 31 Mar 2011 £'000	Transaction Costs £'000
GMO UK Ltd.	195,136	64,308	(64,023)	4,944	200,365	43
Baillee Gifford Life Ltd - Equities	132,605	0	(11,257)	13,675	135,023	0
Baillee Gifford Life Ltd - Diversified Growth	0	40,000	0	195	40,195	0
Martin Currie Investment Management	94,068	28,244	(103,138)	(19,175)	(1)	3
Aberdeen Asset Management - Equities	67,931	4,008	(72,085)	146	0	1
Schroders Asset Management Property	73,458	10,915	(2,705)	2,352	84,020	0
Aberdeen Asset Management - Bonds	145,712	2,000	(90,423)	(57,353)	0	1
Aberdeen Asset Management - Derivatives	64	0	0	0	0	0
Legal & General Investment Management	0	204,874	(27,230)	23,907	201,551	2
Investec Asset Management	0	98,701	0	(867)	97,834	0
Ruffer LLP	0	70,000	(30,000)	(356)	39,644	0
Auriel Capital Management	9,943	0	(11,244)	1,300	(1)	0
Record Currency Management	6,739	0	(8,083)	1,344	0	0
Aberdeen No.2	16	0	(14)	0	2	0
	<b>725,672</b>	<b>523,050</b>	<b>(420,202)</b>	<b>(29,888)</b>	<b>798,632</b>	<b>50</b>

A further analysis of investments assets is as follows.

	Market Value as at 1 Apr 2010 £'000	Purchases £'000	Sales £'000	Change in Market Value £'000	Market Value as at 31 Mar 2011 £'000
<b>UK Investment Assets</b>					
Quoted	420,669	458,742	(356,165)	(34,832)	488,414
Unquoted	16	0	(14)	0	2
<b>Overseas Investment Assets</b>					
Quoted	304,987	64,308	(64,023)	4,944	310,216
Unquoted	0	0	0	0	0
	<b>725,672</b>	<b>523,050</b>	<b>(420,202)</b>	<b>(29,888)</b>	<b>798,632</b>

### Derivative Contracts

The fund managers GMO UK Ltd is permitted to use forward foreign exchange contracts to mitigate the effect on returns of appreciation or depreciation of Sterling against the local currencies of the assets held or to adjust the foreign currency exposure of the portfolio. The only derivative contracts held at 31st March 2011 were forward foreign exchange contracts.

Forward Foreign Exchange Contracts are over-the-counter contracts whereby two parties agree to exchange currencies on a specified future date at an agreed rate of exchange. They are used to manage economic exposure to ma

The amounts included in the accounts represent the unrealised gains or losses arising from the closing out of the contract at the report date. The market value of the contracts is represented by the gain or loss that would arise at the settlement date from entering into an equal and opposite contract at the reporting date.

### Forward Foreign Exchange Contracts

	Sterling value of obligation on purchase or sale date £'000	Sterling value of equal and opposite obligation at 31 March 2011 £'000	Gains/(losses ) on Contract £'000
Currency contracted to purchase	(31,197)	31,489	292
Currency contracted to sell	30,248	(30,947)	(699)
<b>Net Position</b>	<b>(949)</b>	<b>542</b>	<b>(407)</b>

Contract	Manager	Expiration	Gain/Loss on Contract £'000
Australian Dollar Foreign Currency	GMO UK Ltd	April 2011	26
Canadian Dollar Foreign Currency	GMO UK Ltd	April 2011	(2)
Danish Krone Foreign Currency	GMO UK Ltd	April 2011	(64)
Euro Foreign Currency	GMO UK Ltd	April 2011	(661)
Hong Kong Dollar Foreign Currency	GMO UK Ltd	April 2011	4
Japanese Yen Foreign Currency	GMO UK Ltd	April 2011	(6)
Singapore Dollar Foreign Currency	GMO UK Ltd	April 2011	52
Swedish Krona Foreign Currency	GMO UK Ltd	April 2011	51
Swiss Franc Foreign Currency	GMO UK Ltd	April 2011	186
US Dollar Forward Currency	GMO UK Ltd	April 2011	7
			<b>(407)</b>

Realised losses were made on foreign exchange contracts in the year amounting to £0.407m.

## 11. INVESTMENT INCOME

Investment income is broken down as follows.

	2009/2010 £'000	2010/2011 £'000
Income from fixed interest securities	2,368	37
Income from index linked securities	513	340
Dividends from UK equities	4,911	1,609
Dividends from overseas equities	4,267	5,660
Net rents from properties	2,236	2,769
Interest on cash deposits	101	(59)
Foreign tax	94	199
Underwriting costs, etc.	37	7
<b>TOTAL</b>	<b>14,527</b>	<b>10,562</b>

## 12. SECURITIES

The value of listed and unlisted securities is broken down as follows:

	2009/2010 £'000	2010/2011 £'000
Unlisted	88	10
Listed	745,190	807,984
Working Capital	7,223	4,173
	<b>752,501</b>	<b>812,167</b>

## 13. ACTUARIAL POSITION

The Local Government Pension Scheme Regulations require a triennial revaluation of the Fund to assess the adequacy of the Fund's investments and contributions in relation to its overall and future obligations. The contribution rate required for benefits accruing in the future is assessed by considering the benefits that accrue over the course of the three years to the next valuation. The employer's contribution rate is determined by the Actuary as part of the revaluation exercise.

The 2010 statutory triennial revaluation of the Pension Fund completed by the Actuary (Hymans Robertson) in the year estimated the deficit on the Fund to be £305 million and the funding level to be 71%. This compares to a deficit at the previous revaluation in 2007 of £205 million and a corresponding funding level of 78%.

The Actuary has determined that the deficit can be recovered over a period of 20 years and the agreed contribution rate to recover the deficit for the term of the revaluation is as set out below :-

	£m
2011-12	14.00
2012-13	15.25
2014-15	16.50

The Council, as Administering Authority, prepares a Funding Strategy Statement (FSS) in respect of the Fund in collaboration with the Fund's Actuary and after consultation with the employers and investment advisors. The Actuary is required to have regard to this statement when carrying out the valuation. The FSS includes the Fund's funding policy, the objectives of which are:

- to ensure the long-term solvency of the Fund
- to ensure that sufficient funds are available to meet all benefits as they fall due for payment
- not to restrain unnecessarily the investment strategy of the Fund so that the Council can seek to maximise investment returns (and hence minimise the cost of the benefits) for an appropriate level of risk.

The basis of valuing the Fund's assets (see note 2) is compatible with the basis of placing a value on members' benefits as both are related to market conditions at the valuation date.

In accordance with the funding policy, the Actuary determines the employer contribution requirement for future service for the Fund as a whole, and for employers who continue to admit new members. The cost of future service benefits is assessed, taking into account expected future salary increases. In order to place a current value on future benefit cashflows the Actuary "discounts" the future cashflows to the valuation date at a suitable rate. The Actuary adopts a "gilt-based" valuation which uses the yield on suitably dated Government bonds as the discount rate. This is then uplifted to the "funding basis discount rate" taking into account the Fund's current and expected future investment strategy to reflect the percentage by which the Fund is anticipated to "outperform" the yield on Government bonds. The contribution rate required to meet the expected cost of future service benefits is derived as this value less expected member contributions expressed as a percentage of the value of members' pensionable pay. This is known as the "Projected Unit method". The future contribution rate for 2010-11 was 15.8%.

In addition, the Actuary compares the value of the Fund's assets with the estimated cost of members' past service. The ratio of the asset value to the estimated cost of members' past service benefits is known as the "funding level". If the funding level is more than 100% there is a "surplus"; if it less than 100% there is a "shortfall". The next valuation will be as at 31st March 2013 and the recommendations implemented from 1st April 2014.

Although the funding shortfall is significant, it should be noted that current legislation provides that the level of members' basic pension entitlement and contributions are not affected by the financial position of the Fund. It is the Council's responsibility to ensure that pension entitlements are fully funded and that the impact on Council Tax is minimised. It should also be recognised that the Council is a long-term investor both because a high proportion of pension benefits do not become payable until far in the future and the Council has a relatively secure long-term income stream.

The FSS requires that the Fund operates the same target funding level of all ongoing employers of 100% of its accrued liabilities valued on the ongoing basis, to be achieved over a 20 year period (a period equivalent to the expected future working lifetime of the remaining scheme members). The valuation of the Fund as at 31st March 2010 determined that this would require a contribution (additional to the future contribution rate) of 12.9% of members' pensionable pay equivalent to £14.0 million per annum.

The main actuarial assumptions used in revaluation as at 31st March 2010 and applied during the intervalation period were as follows:

<b>Financial</b>	<b>Nominal</b>	<b>Real</b>
Price inflation (CPI)	3.3%	
Pay increases	5.3%	2.0% Real rates are nominal rates
"Gilt based" discount rate	4.5%	1.2% adjusted for inflation
Funding basis discount rate	5.9%	2.6%
<b>Longevity (in years)</b>	<b>Male</b>	<b>Female</b>
Average future life expectancy for a pensioner aged 65 at the valuation date	21.0	23.8
Average future life expectancy at age 65 for a non-pensioner aged 45 at the valuation date	22.9	25.7

#### 14. ADMINISTRATIVE EXPENSES

	<b>2009/2010</b>	<b>2010/2011</b>
	<b>£'000</b>	<b>£'000</b>
Investment Advice	155	170
Performance Measurement	15	15
Administration	882	883
Other Fees	23	(65)
	<b>1,075</b>	<b>1,003</b>

#### 15. INVESTMENT MANAGEMENT EXPENSES

	<b>2009/2010</b>	<b>2010/2011</b>
	<b>£'000</b>	<b>£'000</b>
Payments to Managers	1,871	2,118

Where a fund manager deducts the investment management fee from the net asset value of the Fund this is shown in the Fund Account as an investment management expense and is reflected in the balance sheet as a reduced closing net asset value.

#### 16. RELATED PARTY TRANSACTIONS

Information in respect of material transactions with related parties is disclosed elsewhere within the Council's accounts.

During the year no trustees or Council chief officers with direct responsibility for Pension Fund issues, have undertaken any declarable transactions with the Pension Fund, other than administrative services undertaken by the Council on behalf of the Pension Fund.

These are as set out in the table below.

<b>Fund Administration Expenses</b>	<b>2009/2010</b>	<b>2010/2011</b>
	<b>£'000</b>	<b>£'000</b>
Payroll/HR Support	790	805
Corporate Finance	78	78
	<b>868</b>	<b>883</b>

#### 17. CONTINGENT LIABILITIES

There were no contingent liabilities as at 31st March 2011.

#### 18. POST BALANCE SHEET EVENTS

There are no significant post balance sheet events to report.

## STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

### The Council's responsibilities

The Council is required:

- To make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this Council, that officer is the Corporate Director of Resources.
- To manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- To consider and approve the Statement of Accounts.

The Statement of Accounts for 2010/11 will be considered for approval by the Council's Audit Committee during September 2011.

Chair of Committee

### The responsibilities of the Corporate Director of Resources

The Corporate Director of Resources is responsible for the preparation of the Council's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC *Code of Practice on Local Authority Accounting in the United Kingdom* ("the Code of Practice").

In preparing this Statement of Accounts, the Corporate Director of Resources has:

- Selected suitable accounting policies and then applied them consistently
- Made judgements and estimates that were reasonable and prudent
- Complied with the Code of Practice.

The Corporate Director of Resources has also:

- Kept proper accounting records which were up to date
- Taken reasonable steps for the prevention and detection of fraud and other irregularities.

I certify that the Statement of Accounts 2010/11 presents fairly the financial position of the Council at 31<sup>st</sup> March 2011 and its income and expenditure for the year.



Chris Naylor ACA IPFA MACantab  
Corporate Director of Resources  
30<sup>th</sup> June 2011

## **Annual Governance Statement**

Tower Hamlets LBC (Tower Hamlets) is required by law to prepare a statement that details the Council's framework for making decisions and controlling its resources. The statement includes the Council's governance arrangements as well as control issues. This statement should enable stakeholders to have an assurance that decisions are properly made and public money is being properly spent on behalf of citizens. The statement below complies with the Accounts and Audit Regulations 2011 as amended.

### **Scope of Responsibility**

Tower Hamlets is responsible for ensuring its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness. In discharging this overall responsibility, Tower Hamlets is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, which includes arrangements for the management of risk. Risk management is a principal element of corporate governance, to this end a risk management strategy was adopted in March 2002 and is regularly reviewed and endorsed by the Leader of the Council / Mayor and the Chief Executive.

Tower Hamlets' has approved and adopted a code of corporate governance which is consistent with the principles of the CIPFA/SOLACE Framework, Delivering Good Governance in Local Government. A copy of the code is on our website at [www.towerhamlets.gov.uk](http://www.towerhamlets.gov.uk) or can be obtained from the Council's monitoring officer. This statement explains how Tower Hamlets currently complies with the code and also meets the requirements of regulation 4 of the Accounts and Audit Regulations 2011 in relation to the publication of the Annual Governance Statement. The Council's Standards Committee members will receive an update in July 2011 of the Council's current local governance arrangements and the report will recommend areas of improvement as part of the continuous improvement processes of the Council's governance arrangements.

### **The Purpose of the Governance Framework**

The governance framework comprises the systems and processes, and culture and values, by which the authority directs and controls its activities and through which, it accounts to, engages with and leads the community. It enables the authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.

The system of internal control is a significant part of the governance framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to achievement of Tower Hamlets' policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

Tower Hamlets' governance framework is established through its systems, processes, cultures and values. These are regularly reviewed. The governance framework has been place at Tower Hamlets for the year ended 31 March 2011 and up to the date of approval of the statement of accounts.

Independent Members of the Standards Committee review the Council's performance in adhering to the core principles of good governance, which form Tower Hamlets Code of Corporate Governance.

## **The Governance Framework**

### ***Vision and Priorities***

The Council's vision is to improve the quality of life for everyone living and working in Tower Hamlets. This involves helping to create a thriving, achieving community in which people feel at ease with one another, have good learning and employment opportunities, experience a higher standard of living and good health, and enjoy a safe and an attractive environment together with a wide range of cultural and leisure opportunities.

The Council (and Tower Hamlets Partnership) has refreshed the borough's Community Plan through to 2020. This has four new Community Plan themes to make Tower Hamlets:

- A great place to live;
- A prosperous community;
- A safe and supportive community; and
- A healthy community.

Running through this is the core theme of "One Tower Hamlets" with a focus and drive around reducing inequality, strengthening community cohesion and working in partnership. The Council's strategic plan flows from the Community Plan themes and for 2010/11, 14 priorities were identified around all five Community Plan themes.

Underpinning the Community Plan Themes and corporate priorities are the core values, which all officers are expected to adhere to, to build a more effective organisation. The Council's values are:

- Achieving results
- Engaging with others
- Valuing diversity
- Learning effectively

Over the last year, there has been significant consultation with local people through Local Area Partnership (LAP) events, as well as targeted consultation including with young people, older people, faith groups and disabled people. An analysis of key messages from consultation across the Partnership in the last four years was also undertaken. The Vision, themes and priorities of the Community Plan were discussed through the Tower Hamlets Partnership structures which comprise the Partnership Board and Executive, the Community Plan Delivery Groups (CPDGs) and the Local Area Steering Groups. From October 2010, the Council moved to a Mayoral model of governance subsequently, the Mayor has clearly identified his priorities for the future.

As the diagram below shows, the Council aligns its Strategic Framework with the Community Plan. The Council's Strategic Plan for 2010/11 is organised around the themes, priorities and objectives of the Community Plan and shows how the Council both lead and contribute to the delivery of the Community Plan.

The Tower Hamlets Partnership Community Plan and the Council's Strategic Plan fall within the Council's Budget and Policy Framework. This requires that Overview and Scrutiny Committee are given 10 working days to comment on the draft plans, that Cabinet takes account of Overview and Scrutiny Committee comments in their consideration of the draft plans before recommending them to Full Council. Both plans are subject to approval by Full Council.

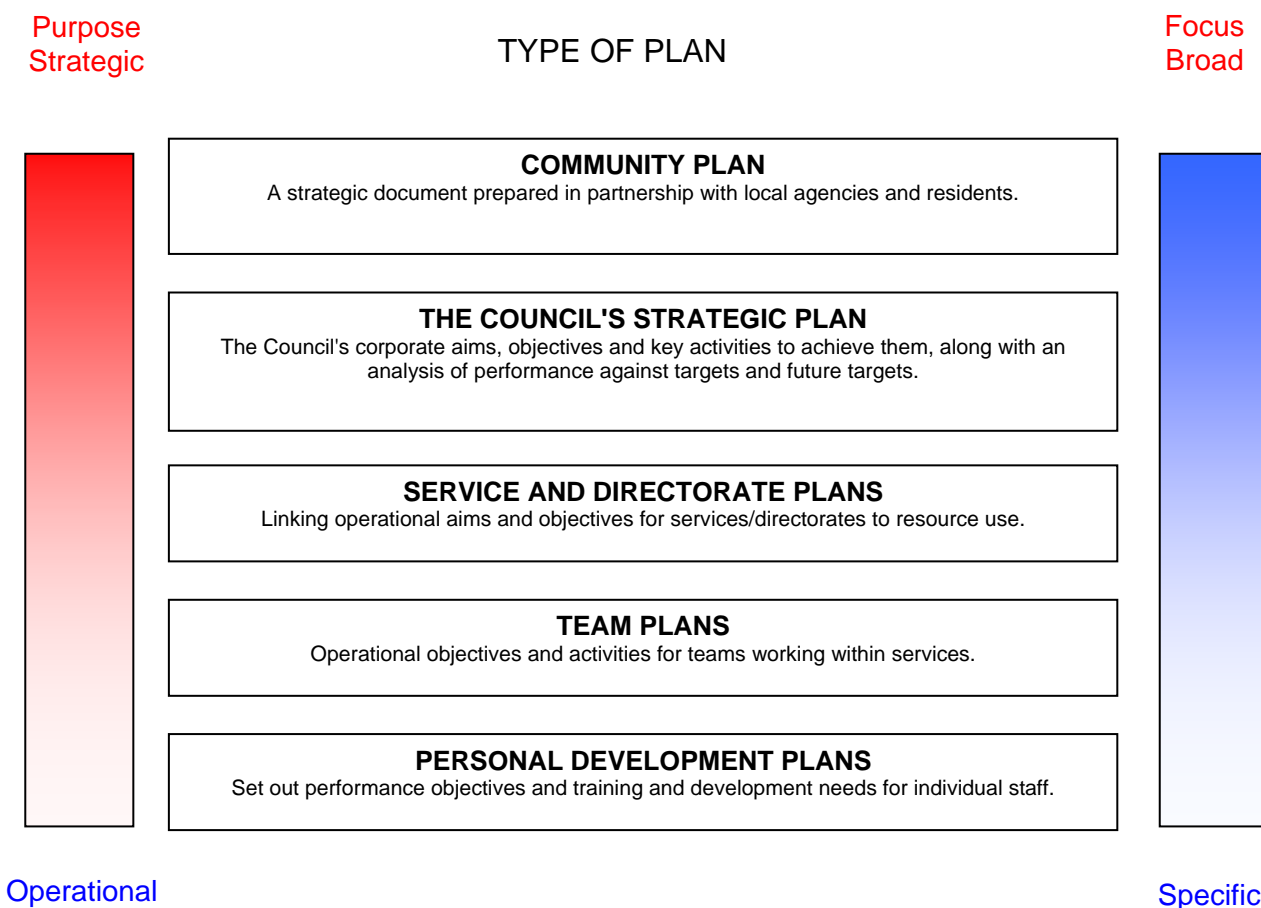
The Council's vision, priorities and objectives are used to structure all directorate, service plans and Personal Development Plans (PDRs). This ensures that there is a "golden thread" that runs from each individual's work through to the Community Plan. This makes sure that the vision, priorities and objectives are communicated at all levels of the organisation. Further communication takes place through the Council's staff newsletter "Pulling Together".

The Strategic Plan is refreshed each year through Cabinet, Overview and Scrutiny and Full Council. The Community Plan is refreshed every three years.

### Quality of Service

The Council operates a comprehensive performance management framework to ensure that strategic priorities are embedded in service, team and individual performance development plans; that resources are linked to operational aims and objectives; and that progress against plans and targets is monitored & evaluated at all levels.

The overall planning framework is illustrated in the following diagram.



### Constitutional Matters

The Council has an agreed Constitution that details how the Council operates, how decisions are made and the procedures that are to be followed to ensure that these are efficient, transparent and accountable to local people. The Constitution is reviewed annually.

The constitution also includes sections on standing orders, financial regulations and conduct of meetings.

During the year the Constitution was reviewed to ensure that it kept abreast of changes within the Council. The Council approves and keeps under regular review all of the strategic policies which it reserves for its own consideration, including:

- the constitution;
- the corporate performance plan;
- the corporate strategy;
- the capital programme and revenue budget;
- the housing strategy; and
- the local development framework.



The Executive is responsible for key decisions and comprises the Mayor and a Cabinet. All key decisions required are published in advance in the Executive's Forward Plan, and will generally be discussed in a meeting open to the public. All decisions must be in line with the Council's overall policy and budget framework and any decisions the Executive wishes to take outside of that framework must be referred to the Council as a whole to decide. The Council operates a system of delegated authority whereby the Executive delegates certain decisions to the Chief Executive and Senior Officers. This is set out in the scheme of delegation.

During 2010/11 the work of the Executive was scrutinised by an Overview and Scrutiny Committee and a number of Scrutiny Panels. A "call-in" procedure allows Scrutiny to review Executive decisions before they are implemented, and to recommend alternative courses of action.

In a referendum over the borough having a directly elected Mayor, held on 6 May 2010, Tower Hamlets electorate voted for the mayoral model to govern the business of the Council. An election to appoint a mayor took place in October 2010 and the Council's constitution and accompanying financial regulations have been updated to reflect the new model.

### ***Codes of Conduct***

The Council has a code of conduct for officers supported by a requirement to make declarations of interest and to declare gifts and hospitality. Interests must be declared by officers above a certain grade and those in certain decision making and procurement positions. Officers are required to generally decline gifts and hospitality to ensure that officers are not inappropriately influenced. These codes and processes are made available to staff at their induction, they are on the intranet and training is available to ensure every staff member understands their responsibilities.

Members are required to make declarations of interest when elected and to consider their interests and make appropriate declarations at each meeting they attend. Members must also declare any gifts and hospitality. Members' declarations and gifts and hospitality records are made public through the Council's website. As part of the adoption of the new members code a number of protocols were reviewed including the one concerning member and officer relationships in 2009/10. The Standards Committee was advised of the change and the revisions that were made to the code.

### ***Compliance with Policies, Procedures, Laws and Regulations***

The Council has a duty to ensure that it acts in accordance with the law and relevant regulations in the performance of its functions. It has developed policies and procedures to ensure that, as far as is reasonably possible, all Members and officers understand their responsibilities both to the Council and to the public. These include the Constitution, Standing Orders, Financial Regulations and Financial Procedures, Codes of Conduct and Protocols. Key documents are available to Members and staff through the Council's intranet and to a wider audience through publication on the Council's website. All policies are subject to periodic review to ensure that they remain relevant and reflect changes to legislation and other developments in the environment within which the Council operates.

### ***Effective Audit Committee***

Internal Audit provides assurance and advice on internal control to the Mayor, the Corporate Management Team and Members. Internal Audit reviews and evaluates the adequacy, reliability and effectiveness of internal control within systems and recommends improvements. It also supports the management of the Council in developing systems, providing advice on matters pertaining to risk and control.

Internal Audit is overseen by an Audit Committee comprising seven members; four from the majority group and one each from the three largest minority group in proportion of their representation on the Council. The Audit Committee's remit is around the Council's systems of internal control, risk management and governance, as outlines in the CIPFA Code of Practice for Audit Committees. The Audit Committee also reviews audit findings and the effectiveness of the internal audit function. Specifically, the core functions of the Audit Committee are to consider the annual audit plan and the performance of internal audit; to be satisfied that the authority's annual governance statement properly

reflects the risk environment; to demonstrate its fiduciary responsibilities in preventing and detecting fraud; to monitor the authority's risk management framework; to meet the accounts and audit regulations in respect of approving the authority's statement of accounts and to consider reports from the Audit Commission. The Audit Committee met four times during the financial year 2010/11.

### ***Whistle Blow and the Complaints Procedure***

The Council has a recognised complaints process. This comprises a number of stages to enable the public to escalate their complaints if they are unsatisfied with the answer they receive. Details of complaints are monitored by the Monitoring Officer and Members.

Members also receive enquiries and complaints via their surgeries, walkabouts and question time activities. The Council has arrangements to support members in addressing these queries to ensure that the public receive an appropriate answer.

Within the Council the whistle blowing policy is actively promoted and annually, there are a number of whistle blowing events reported. The effectiveness of the policy and the type of issues raised are reviewed and monitored by the Council's Audit Committee on an annual basis.

Tower Hamlets also participates in the National Fraud Initiative (NFI) a computerised data matching exercise, lead by the Audit Commission, designed to detect fraud perpetrated on public bodies. The Corporate Anti Fraud team has actively engaged with the Audit Commission to test and improve the output from the NFI exercise.

### ***Risk Management***

The Authority has embedded a Risk Management Strategy to identify and manage the principal risks to achieving its objectives. The Strategy recognises that the Council may not always adopt the least risky option, where the potential benefits to the community warrant the acceptance of a higher level of risk. All reports seeking decisions or approval to a proposed course of action contain an assessment of the risk involved.

Key risks are recorded in corporate and directorate risk registers, which are subject to periodic review and reporting to the Corporate Management Team. Directorate Risk Champions oversee the continued development of the Council's approach to risk management.

### ***Financial Management***

Statutory responsibility for ensuring that there is an effective system of internal financial control rests with the Corporate Director, Resources. The system of internal financial control provides reasonable assurance that assets are safeguarded, that transactions are authorised and properly recorded, and that material errors or irregularities are either prevented or would be detected.

Internal financial control is based on a well established framework of management information, financial regulations and administrative procedures, which include the segregation of duties, management supervision and a system of delegation and accountability. Ongoing development and maintenance of the various processes is the responsibility of managers within the Council. The control arrangements in 2010/11 included:

- comprehensive corporate and directorate budgeting systems;
- an annual budget approved by the Council that reflects strategic priorities;
- a risk financing strategy;
- medium-term financial plans and projections;
- regular reporting of actual expenditure and income against budgets and spending forecasts;
- targets to measure financial and other performance;
- clearly defined prudential borrowing framework and indicators; and
- standing meetings of finance managers from across the Council.

Since the publication of the CIPFA statement on the role of the Financial Officer in Local Government (2010), a self assessment of the Council has shown the authority confirms to the good practice identified within the code. A more recent publication around the role of the Head of Audit will be similarly assessed and will be submitted to the Audit Committee in due course.

### ***The Efficient and Effective Use of Resources***

Value for money and continuous improvement are secured through a range of processes, including the application of best value principles and the carrying out of efficiency reviews. During 2010/11, the Council continued work on its efficiency programme and has made plans to manage with significantly reduced financial resource in future. As part of its service and financial planning process, the Council set efficiency targets and brought performance and perception data into the consideration of resource allocation. The Audit Commission's most recent assessment for value continues to be positive in the way the Council seeks to delivery value for money.

The strategic planning process ensures that resources are focused on the priorities set out in the Strategic Plan. Processes for service and financial planning are aligned and the annual budget process evaluates new requirements for resources in terms of their contribution to the objectives of the Strategic Plan. Corporate guidance on team planning requires consideration of value for money issues in developing annual objectives. Reports concerned with proposed expenditure, reviewing or changing service delivery or the use of resources contain an efficiency statement setting out how the proposals will assist towards achieving greater efficiency.

### ***Learning and Organisational Development***

The Council has a commitment that every member of staff receives an annual appraisal to discuss performance, targets and personal development. The Council provides a range of training opportunities for managers and staff to ensure that they can deliver excellent public service. These include a Leadership programme, specific training relating Recruitment and Selection, Risk Management, and other computer based training.

Members have a support officer and a development program to keep them up to date with changes and to support training needs. Training is supplemented by information through briefings, conferences and weekly bulletins. The Audit Committee and Standards Committee have training as part of their agendas and it is intended that in future they will agree specific training plans for themselves annually. For some aspects of Council work members are required to undertake a period of study and pass a test to ensure they can demonstrate appropriate competence, for example the Licensing Committee.

### ***Communication and Engagement***

The Council publishes numerous documents on its website as well as providing a weekly newspaper, East End life to keep members of the public up to date with what is going on.

The Council also engages with citizens through surveys such as the annual resident's survey and a tenants' survey. These help to inform the Council of the population's opinion on the services provided, their experience of services and to influence the Council's priorities for the future. Further, more recently, the authority is using its citizen engagement portal to engage with a wide range of stakeholders.

On a more local basis the Council has a number of community forums which are used to engage with the community. Tower Hamlets has a greater proportion, compared to the rest of London, of young population and has thus engaged with the young people of Tower Hamlets by enabling them to vote for a young Leader of the Council. A number of local residents put themselves forward and a vote was held to elect a Leader to represent the young people of Tower Hamlets. The young Leader has a clear manifesto and is working to make a difference to young people's lives within the borough.

The Council's website is continually being developed to provide more information, enable more services to take place electronically and to receive comments from all stakeholders.

## ***Partnerships***

The most significant partnership for the Council is the Tower Hamlets Partnership. The partnership has three stands; the eight local area partnerships which allows residents to influence their locality; the Community Plan Delivery Groups for each of five key themes in the community plan and the Partnership Executive and Board, which has responsibility for developing the overall strategy and for ensuring plans are delivered. The Partnership has its own constitution and its Members are also subject to a code of conduct and make declaration of interest at meetings. The Tower Hamlets Partnership is responsible for delivering the vision and aspirations for the Community in the medium and long term, and the Local Area Agreement (LAA) agreed for the period 2008 - 2011 include key targets and indicators following negotiation between the Tower Hamlets and Central Government. Although the LAA is no longer a statutory requirement, key performance indicators remain to monitor the Council's delivery of its aims to the community.

The Council also has partnership arrangements with the local primary care trusts and the partnership has led on a number of public health programmes in recent months. There are also partnership arrangements with the Police, Probation and Youth Justice services to help to meet the targets for reducing crime and making Tower Hamlets a safer and stronger community.

## ***Review of Effectiveness***

The Council has responsibility for conducting, at least annually, a review of the effectiveness of the system of internal control. The review was conducted in accordance with the assurance framework and therefore focussed on the risks to the fulfilment of the Council's principal objectives, as set out in the Strategic Plan, and the controls in place to manage those risks. The review of the effectiveness of the internal control framework involved the evaluation of the key sources of assurance:

- the Council evaluated its corporate governance arrangements against good practice criteria set out in the CIPFA/SOLACE guidance. The arrangements were found to be sound albeit recommendations were made to enhance current arrangements.
- the annual Head of Audit Opinion expressed the opinion that overall the Council's system of internal control is adequate and effective.
- the risk management framework, including the corporate and directorate risk registers, provides assurance that the key risks to strategic objectives are managed effectively and are monitored by senior officers and Members.
- the Council is subject to a range of external audit and inspection activity both corporately and for individual services. The judgements of the external auditors contained in their annual audit letter and other reports provide assurance that the Council has a reasonable system of internal control.
- monitoring of performance shows improvement in performance against external measures, the Council's own targets and in comparison to other authorities.
- the provisional outturn on the 2010/11 budget shows that the financial management systems and processes of the Council succeeded in keeping expenditure within planned limits.

## ***Overview and Scrutiny***

The Overview and Scrutiny function reviews decisions made by the cabinet and raises proposals for the Cabinet from its annual plan of work. The focus of their role is thus to provide a challenge and to support the development of policies. At their meetings they consider performance information. They also have a key role in reviewing and challenging the Cabinet's budget framework prior to consideration at full Council.

### **Internal Audit**

Internal audit is an independent appraisal function that acts as a control that measures, evaluates and reports upon the effectiveness of the controls in place to manage risks. In carrying out this function Internal Audit contributes to the discharge of the Executive Director of Resources' S151 responsibilities.

The work of the Internal Audit Section is monitored and reviewed by the Audit Committee. Annually the Head of Audit and Risk Management is required to give an opinion on the Council's internal control framework based upon the work carried out during the year in the form of an annual report. For 2010/11, the overall the control environment is adjudged to be satisfactory.

### **External Audit**

The Council's external auditors, the Audit Commission, review its arrangements for:

- preparing accounts in compliance with statutory and other relevant requirements;
- ensuring the proper conduct of financial affairs and monitoring their adequacy and effectiveness in practice; and
- managing performance to secure economy, efficiency and effectiveness in the use of resources.

The auditors have in their annual audit letter and their assessment commented upon the Council's accounts, corporate governance and performance management arrangements.

### **Significant Governance Issues**

The review of the effectiveness of the governance arrangements in 2010/11 has identified some areas where action is appropriate to enhance the control environment and ensure continuous improvement. The areas are set out below. In all cases work is already underway to address the action points as shown by the reference to the strategic or directorate plan of the Council.

<b>Governance Issue</b>	<b>Action taken and next steps</b>	<b>CMT Lead</b>
To model an efficiency programme to take account of the reduction in revenue funding for the Council over the next three financial years.	<p>Cabinet approved savings proposals of £55M in the last financial year. A further saving is required of approximately £17M in 2012/13 to create a balanced budget. The officer member process for identifying and delivering this saving is in place. The delivery of the £55M is being overseen by the Corporate Transformation Board and monitored by the Benefit Realisation Officers in the Programme Management Office, supported by the Council's normal monitoring processes.</p> <p>The government spending review period cover 4 years from 2011/12 to 2014/15, and the Medium Term Financial Plan has been rolled forward and savings for the period up to the end of 2014/15 will be considered as</p>	Corporate Management Team

<b>Governance Issue</b>	<b>Action taken and next steps</b>	<b>CMT Lead</b>
	part of the officer member process.	
Improve information governance across the authority, including paper based records.	The Council has embarked on a number of projects to ensure it manages all personal information it holds properly. The encryption project, which focused on the security of electronic information, is substantially complete and further arrangements are being made to roll out enhancements that will allow the Council to deliver its diverse range of services securely.	Corporate Directors, Resources and Assistant Chief Executive (Legal)
Directorate operational guidance on contract management; retention and filing of contract documentation and unauthorised extension of contracts.	<p>The authority has already taken a number of steps to improve governance around contracts and contract management.</p> <p>A purpose built storage system has been installed in a dedicated room to create a contract repository. A full inventory of all key contracts will be created and an audit trail maintained between the Contract Register and the Repository to ensure contracts are accounted for.</p> <p>Training is continuing to enhance officer skills in managing contracts.</p>	Corporate Director, Resources
Maintain an ongoing drive to deliver decent homes standard.	Funding allocations from the Decent Homes Backlog Programme for 2011-15 were announced on 15 February 2011 including £94.5m for Tower Hamlets. Tower Hamlets Homes are conducting an 'affordability' review of works scope & costs included in the original bid to HCA. The tender for a decent home contractor will begin shortly with a view to a contractor being in place for the start of April 2013.	Corporate Director, Development and Renewal
The delivery of sufficient affordable housing over the next year, particularly within the context of central government's welfare reform agenda.	The Council already has a programme to deliver 1,000 affordable homes per annum for the next four years. Work is underway Registered Social Landlords to develop regeneration schemes for the 2015 programme.	Corporate Director, Development and Renewal
Arrangements for Safeguarding Children / Child Protection (implementation of actions arising from the Munro Report)	Action taken already includes a review of the recommendations raised in the	Corporate Director,

Governance Issue	Action taken and next steps	CMT Lead
	<p>Munro Report; (March / April); financial understanding of the budget requirements; and reporting to the Children's Schools and Family Directorate Management Team in place.</p> <p>The next steps are, Implementation of recommendations and assessing potential increase in social worker requirements; and new authority requirements for Children in Care.</p>	Children Schools and Family
Pupil Place Planning - expanding school provision to meet rising demand for places.	<p>The action taken already include identification of short term primary place needs (2011/12 school year) and development of technical feasibility of temporary school expansion; strengthening our pupil projections modelling to ensure our planning is based on robust data; continuation of implementation of medium term expansion plans to 2014/15 year and early involvement of head teachers in planning.</p> <p>The next steps are to, report to Cabinet in June 2011 to the Cabinet on Estate Strategy; Work with the Development and Renewal directorate to integrate two planning models to provide one single comprehensive projection model by September 2012 and strategic provision of additional primary school places in 2019/20 school year by March 2012.</p>	

We have been advised on the implications of the review of the effectiveness of the governance systems of the Council having regard to the sources of assurance set out in this statement, and we are satisfied that the system of control is effective.

We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

# GLOSSARY OF FINANCIAL TERMS AND ABBREVIATIONS

The following terms and abbreviations, while not being exhaustive, may prove of assistance in understanding the Statement of Accounts

## FINANCIAL TERMS

**Accounting period** - The period of time covered by the Council's accounts. The Council's financial year is from the period 1<sup>st</sup> April to the following 31<sup>st</sup> March.

**Accrual** - The recognition of income and expenditure in the year that they occur and not when any cash is received or paid

**Actuary** - An independent adviser to the Council on the financial position of the Pension Fund.

**Actuarial Valuation** - Every three years the Actuary reviews the assets and liabilities of the Pension Fund and reports to the Council on the fund's financial position and recommended employers' contribution rates.

**Accumulated Absences Account** – This account represents the value of leave rolled over from one financial year to another. This reserve account is used to avoid reducing general fund reserves.

**Amortisation** - The writing off of an intangible asset or loan balance to the Comprehensive Income and Expenditure Account over an appropriate period of time.

**Amortised Cost** - The carrying value of an asset or liability in the balance sheet, which has been written up or down via the Comprehensive Income and Expenditure Account.

**Approved Investments** - These are investments, which Local Authorities are permitted to make using their unapplied capital and revenue funds. These investments must be in sterling and normally consist of gilts or short-term deposits with banks, building societies and other financial institutions. Such investments are treated as neither revenue nor capital expenditure.

**Balance Sheet** - A statement of all the assets, liabilities and other balances of the Council at the end of an accounting period.

**Budget** - A forecast of future expenditure plans for the Council. Detailed revenue budgets are prepared for each year and it is on the basis of these figures that the Council Tax is set. Budgets are revised towards the year-end to take account of inflation, changes in patterns of services and other factors.

**Capital Financing Charges** - The annual cost of capital, including principal repayments, interest charges and leasing costs.

**Capital Expenditure** - Expenditure on the acquisition of fixed assets or expenditure which adds to the value of an existing fixed asset.

**Capital Adjustment Account** - Represents amounts set aside from revenue resources or capital receipts to finance expenditure on fixed assets or for the repayment of external loans or certain other capital financing transactions.

**Capital Financing Requirement** - Represents the Council's underlying need to borrow for a capital purpose.

**Capital Grants Unapplied** – Grant balances that will be used for future capital expenditure.

**Capital Receipt** - Income received from the sale of a capital asset such as land or buildings.



**Capital Receipts Reserve** - Represents proceeds of fixed asset sales available to meet future capital investment.

**Carrying Value** - In relation to the value of financial instruments, it is the amount to be recognised on the Balance Sheet.

**Cash equivalent** – Highly liquid, safe investments that can easily be converted into cash.

**Collateral** - Assets pledged by a borrower to secure a loan.

**Collection Fund** - A statutory account which receives Council Tax, Non-Domestic Rates and Government Grants to cover the costs of services provided by the Council and its precepting authorities.

**Collection Fund Adjustment Account** - The Collection Fund Adjustment Account represents the Authority's share of the Collection Fund Surplus/Deficit.

**Community Assets** - Assets that a local authority intends to hold in perpetuity, that have no determinable useful life and that may have restrictions on their disposal. Examples of Community Assets are parks and historic buildings.

**Comprehensive Income and Expenditure Account** - A statement showing the expenditure and income of the Council's services during the year demonstrating how costs have been financed from general Government grants and income from local taxpayers.

**Contingent Liability** - Where possible "one-off" future liabilities or losses are identified but the level of uncertainty is such that the establishment of a provision is not appropriate.

**Creditors** - Amount of money owed by the Council for goods and services received.

**Credit Risk** - The probability that an organisation owing monies to the Council may be unable to honour its commitments.

**Debtors** - Amount of money owed to the Authority by individuals, and organisations.

**Deferred Capital Receipts** - The balance of outstanding mortgages granted mainly to purchasers of council houses.

**Deferred Income – Receipt in Advance** – This represents a receipt received as part of entering into a building lease. The credit is being released over the term of the lease.

**Deferred Liabilities** – These are future payments that the Council is contractually obliged to pay in future years. These liabilities relate to Private Finance Initiative (PFI) schemes.

**Defined Benefit Scheme** - A pension scheme which defines benefits independently of the contributions payable. Benefits are not directly related to the investments of the Pension Fund.

**Depreciation** - The measure of the wearing out, consumption or other reduction in the useful economic life of a fixed asset, whether arising from use, passage of time or obsolescence through technological or other changes.

**Earmarked Reserves** - Amounts set aside for a specific purpose to meet future commitments or potential liabilities, for which it is not appropriate to establish provisions.

**Events after the Balance Sheet Date** - Those events that relate to the accounting year, both favourable and unfavourable, which occur between the balance sheet date and the date on which the Statement of Accounts is signed by the Corporate Director of Resources.

**Fair Value** - In relation to the value of financial instruments, it is the amount for which an asset can be exchanged or a liability settled between knowledgeable and willing parties in an arms length transaction.

**Finance Lease** - A lease that transfers substantially all of the risks and rewards of ownership of a fixed asset to the lessee.

**Financial Instrument** - Any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another.

**Financial Instrument Adjustment Account** - This represents the balance of deferred discounts relating to the premature redemption of Public Works Loans Board (PWLB) debt.

**General Fund (GF)** - The Council's main revenue account from which is met the cost of providing most of the Council's services.

**Government and Other Capital Contributions Deferred** - Capital grants received which will be credited to revenue in future years to offset depreciation for related fixed assets.

**Historic Cost** - The actual cost of an asset in terms of past consideration as opposed to current value.

**Housing Revenue Account (HRA)** - A statutory account maintained separately from the General Fund for the recording of income and expenditure relating to the provision of council housing.

**Impairment** - A reduction in the valuation of a fixed asset caused by consumption of economic benefits or by a general fall in prices.

**Infrastructure Assets** - Assets which have an indeterminate life and although valuable do not have a realisable value e.g. roads.

**Intangible Assets** - Non-financial long-term assets that do not have physical substance but are identifiable and controlled by the authority i.e. purchased software licences.

**Interest Rate Risk** - The uncertainty of interest paid/received on variable rate instruments and the effect of fluctuations in interest rates on the fair value of an instrument.

**Inventories** – The value of stocks held and work in progress that have not been completed.

**Liquidity Risk** - The risk that the Council will be unable to raise finance to meet its commitments.

**Long-Term Assets** - Assets that yield benefit to the Council and the services it provides for a period of more than one year.

**Major Repairs Reserve** - Represents the funds available to meet capital investment in council housing

**Minimum Revenue Provision (MRP)** - The amount that has to be charged to revenue to provide for the redemption of debt. Not applicable to the HRA.

**Movement in Reserves Statement** – A summary of the Council's reserves at the balance sheet date split between usable and unusable reserves. This is a new requirement under IFRS.

**National Non-Domestic Rates Pool (NNDR Pool)** - Non-Domestic Rates (Business Rates) are paid into a central pool controlled by Government. This money is then redistributed to councils on the basis of resident population.

**Net Book Value** - The amount at which fixed assets are included in the balance sheet after depreciation has been provided for.

**Net Current Replacement Cost** - The current cost of replacing or recreating an asset in its existing use adjusted for the notional depreciation required to reflect the asset's existing condition and remaining useful life.

**Net Realisable Value** - The open market value of the asset less the expenses to be incurred in realising the asset.

**Non-Operational Assets** – Long-term assets held by an organisation but not directly occupied, used or consumed in the delivery of its services. Examples would be investments and surplus properties.

**Operating Lease** - A lease other than a finance lease - a lease which permits the use of the asset without substantially transferring the risks and rewards of ownership.

**Operational Assets** - Fixed assets held, occupied, used or consumed by the Council in the direct delivery of its service.

**Outturn** - The actual level of expenditure and income for the year.

**Precept** - The charge made by the Greater London Authority on the Council to finance its net expenditure.

**Private Finance Initiative** - Contracts whereby private sector suppliers provide services and/or capital investment in return for a unitary payment; subject to agreed performance targets.

**Projected Unit Method** - Actuarial valuation method whose key feature is to assess future service cost; the Actuary calculates the employer's contribution rate, which will meet the cost of benefits accruing in the year after the valuation date.

**Property, Plant and Equipment** – Long-term assets owned or controlled by the council.

**Provisions** - Amounts set aside for liabilities and losses, which are certain or very likely to occur but where the exact amount or timing of the payment are uncertain.

**Public Works Loans Board (PWLb)** - Central Government agency which funds much of local government borrowing.

**Registered Social Landlord** - A not-for-profit organisation which owns and manages homes.

**Reserves** - Amounts set aside which do not fall within the definition of a provision, to fund items of anticipated expenditure. These include general reserves or balances which every Council must maintain as a matter of prudence.

**Revaluation Reserve** - Represents the increase in value of the Council's land and building assets from 1st April 2007.

**Revenue Expenditure** - The day-to-day expenditure of the Council - salaries, goods and services and capital financing charges.

**Revenue Support Grant** - General grant paid by the Government to local authorities.

**Soft Loan** - Loans given at less than market/commercial rates to community or not-for-profit organisations.

**Supplementary Business Rates (SBR)** – Locally raised business rates for local projects. London Councils are levying a SBR for the Cross-rail project.

**Support Services** - Activities of a professional, technical and administrative nature which are not Council services in their own right, but support main front line services such as finance, information technology and human resources.

**Unusable Reserves** – These represent reserve balances that cannot be spent as part of an organisation's medium term financial plan. An example is the revaluation reserve.

**Usable Reserves** – These represent reserve balances that can be spent as part of an organisation's medium term financial plan. Any organisation has to review reserve levels to ensure long-term financial stability. General fund and Housing Revenue Account reserves are usable reserves. Contrast to unusable reserves.

## **Abbreviations used in Accounts**

<b>ABG</b>	Area Based Grant
<b>AGS</b>	Annual Governance Statement
<b>ALMO</b>	Arm's Length Management Organisation (Tower Hamlets Homes)
<b>BVACOP</b>	Best Value Accounting Code of Practice
<b>CAA</b>	Capital Adjustment Account
<b>CFR</b>	Capital Financing Requirement
<b>CI &amp; E</b>	Comprehensive Income and Expenditure Account
<b>CIPFA</b>	Chartered Institute of Public Finance and Accountancy
<b>CRR</b>	Capital Receipts Reserve
<b>DCLG</b>	Department of Communities and Local Government
<b>DfE</b>	Department for Education
<b>DSG</b>	Dedicated Schools Grant
<b>DWP</b>	Department for Work and Pensions
<b>EIR</b>	Effective Interest Rate
<b>FRS</b>	Financial Reporting Standard
<b>GAAP</b>	Generally Accepted Accounting Principles
<b>GLA</b>	Greater London Authority
<b>HRA</b>	Housing Revenue Account
<b>IFRS</b>	International Financial Reporting Standards
<b>LABGI</b>	Local Authority Business Growth Incentive
<b>LAML</b>	London Authorities Mutual Limited
<b>LASAAC</b>	Local Authority (Scotland) Accounts Advisory Committee
<b>LATS</b>	Landfill Allowance Trading Scheme
<b>LBTH</b>	London Borough of Tower Hamlets
<b>LGPS</b>	Local Government Pension Scheme
<b>LOBO</b>	Lender's Option – Borrower's option
<b>LPFA</b>	London Pensions Fund Authority
<b>MRA</b>	Major Repairs Allowance
<b>MRP</b>	Minimum Revenue Provision
<b>NPV</b>	Net Present Value
<b>(N)NDR</b>	(National) Non-Domestic Rates
<b>PCT</b>	Primary Care Trust
<b>PFI</b>	Private Finance Initiative
<b>PWLB</b>	Public Works Loans Board
<b>RICS</b>	Royal Institute of Chartered Surveyors
<b>RSG</b>	Revenue Support Grant
<b>SORP</b>	Statement of Recommended Practice
<b>SSAP</b>	Statement of Standard Accounting Practice
<b>STRGL</b>	Statement of Recognised Gains and Losses
<b>WDA</b>	Waste Disposal Authority